★ CORRECTION OR MORE RISE? ★

The MAGAZINE of WALL STREET

and BUSINESS ANALYST

FEBRUARY 25, 1961 85 CENTS

HOW'S BUSINESS TODAY?

... A First-Hand Regional Survey of the 12 Federal Reserve Areas

By PAUL J. MAYNARD

★

An Answer to the Recession ...

REBUILDING OUR CITIES

— A project for private industry in team-work with government

By DR. EUGENE VAN CLEEF

Special Investment Features...

Starting this issue

A FIRST-HAND REPORT on TRENDS in 1961 DEFENSE EXPENDITURES

By JEROME ELSWIT

PART II ... **WHAT 1960 ANNUAL EARNINGS REPORTS REVEAL**

By ROBERT B. SHAW

SURVEY OF STOCKS OFFERING TAX ADVANTAGES

By JAMES A. BUTLER

NATURAL GAS STRUGGLE ON THE WEST COAST

By JOHN PINTARD

POLITICAL PRESSURES THAT CAN DESTROY OUR ECONOMIC SYSTEM

By WARD GATES

Where Do Great Ideas Come From?

From its beginnings this nation has been guided by great ideas.

The men who hammered out the Constitution and the Bill of Rights were thinkers—men of vision—the best educated men of their day. And every major advance in our civilization since that time has come from minds *equipped by education* to create great ideas and put them into action.

So, at the very core of our progress is the college classroom. It is there that the imagination of young men and women gains the intellectual discipline that turns it to useful thinking. It is there that the great ideas of the future will be born.

That is why the present tasks of our colleges and universities are of vital concern to *every* American. These institutions are doing their utmost to raise their teaching standards, to meet the steadily rising pressure for enrollment, and provide the healthy educational climate in which great ideas may flourish.

They need the help of all who love freedom, all who hope for continued progress in science, in statesmanship, in the better things of life. And they need it *now!*

If you want to know what the college crisis means to you, write for a free booklet to: HIGHER EDUCATION, Box 36, Times Square Station, New York 36, N.Y.

HIGHER EDUCATION
KEEP IT BRIGHT

Sponsored as a public service, in cooperation with the Council for Financial Aid to Education

PUBLIC SERVICE ADVERTISING COUNCIL

THE MAGAZINE OF WALL STREET and BUSINESS ANALYST

Member of Audit Bureau of Circulations

No. 107 No. 12 February 25, 1961

The Ticker Publishing Company is affiliated by common ownership with the Investment Management Service and with no other organization. It publishes the Magazine of Wall Street and Business Analyst, issued bi-weekly, and The Investment and Business Forecast, issued weekly. Neither the Ticker Publishing Company nor any affiliated service or publication has anything for sale but information and advice. No securities or funds are handled under any circumstances for any client or subscriber.

CONTENTS

C. G. Wyckoff, President and Treasurer; Arthur G. Gaines, Secretary. The information herein is obtained from reliable sources and while not guaranteed we believe to be accurate. Single copies on newstands in U. S. and Canada: 85 cents. Place a standing order with your newsdealer and he will secure copies regularly. Entered as second-class matter January 30, 1915, at P. O. New York, Act of March 3, 1879. Published every other Saturday.

SUBSCRIPTION PRICE — $20.00 a year in advance in the United States and its possessions. Pan American, Canadian and Foreign Postage, $3.00 additional per year. Please send International Money Order or United States Currency.

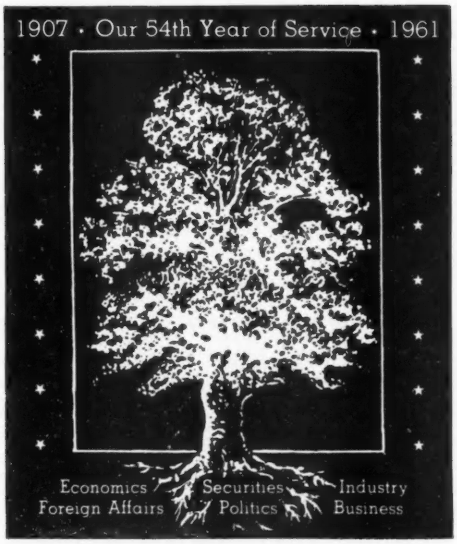
TO CHANGE ADDRESS — Write us your name and old address in full, new address in full and get notice to us three weeks before you desire magazine sent to your new address.

EUROPEAN REPRESENTATIVES — International News Co., Ltd., Breams Bldg., London E. C. 4 England.

Cable Address — Tickerpub

THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

WHEN IS PRICE-FIXING NOT PRICE-FIXING? . . . No news quite like the electrical equipment price-fixing scandals has ever burst on the startled business community before. The sentencing of respected middle-echelon executives — men just like your neighbors, probably active in the Boy Scouts and the PTA — is really unprecedented.

Of course, if these men were guilty of a serious crime, their respectable background certainly should not give them any immunity against conviction and imprisonment. Just the same, this episode is bound to prompt many perplexing questions. Among them: is collusion in the fixing of prices really unethical as well as illegal? Is this practice so general that the men just sentenced were merely sacrificial goats? Should subordinates take the rap when a strong inference exists that top executives must have had a good idea what was going on?

But beyond these immediate questions a deeper, more disturbing doubt persists as to the role of price-fixing in modern economic life. There is nothing new about it. It has been going on for ages in every country; and through the cartels, has reached around the world. The coffee-growing nations have dumped and burned carloads of coffee beans to create scarcity, and entered into specific pacts to keep prices up. We have had the World Sugar Council working toward the same end. Even the price of gold is fixed by our Government, and President Kennedy has just announced there would be no change regardless of the free markets operative around the world.

Price-fixing exists in so many areas that it is found in one way or another to be operative in practically all commercial activities. What was the NRA but a wage-price-fixing device designed to bring stability at a time of great unsettlement and to prevent chaos. The situation in the electrical industry is a fair parallel.

In this specific case, the price-fixing practice which the courts have declared to be a crime in the electrical equipment business is somehow a virtue among public utilities, in agriculture and in labor. In the farm field, the Government rigidly enforces price-fixing and artificial scarcity, branding as a criminal the occasional individualist who seeks to defy the system. In labor, powerful combinations supported by the Government determine wage rates, and exercise every form of coercion against anyone who would introduce any form of price competition for his services.

It is difficult to explain to our children why the electric-

We call the attention of the reader to our Trend Forecaster, which appears as a regular feature of the Business Analyst. This department presents a valuable market analysis of importance to investors and businessmen. To keep abreast of the forces that may shape tomorrow's markets, don't miss this regular feature.

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS: 1907 — *"Our 54th Year of Service"* — 1961

al executives are wicked men, while Reuther and Hoffa are influential and honored. It is hard to understand, ourselves, why the price-fixing of generators or transformers is a sin, while high support prices for wheat and corn are an important government objective. Could you explain this to us, Mr. President . . . Mr. Attorney General . . . Mr. Congressman?

UNDERMANNED STORES . . . Shopping in even one of the better grade retail establishments has become a terrible chore. There are not enough clerks, and the prospective customer is obliged to fend for himself in locating the articles he wants to buy. And the result most frequently is that people just walk out. It is too confusing to carry on the search — and time-consuming too.

This is undoubtedly the case with the majority of men and women who buy goods on which retail profits are high, and who would rather do without than undertake the task of "digging" for what they want.

Doesn't it therefore seem penny-wise-and-pound-foolish to spend money for advertising to bring in the customers, and then let them walk out due to a shortage of sales personnel — the sure way to lose charge customers, who become more restive every time they try shopping in this fashion? And they undoubtedly ask themselves. "Why should I go to a department store and pay for service in the price of the goods, instead of going to a discount house that in lieu of service gives me a lower price?"

Thus, it seems clear that retail establishments would find it more profitable to increase their sales staffs than to cut down. And, at the same time, by acting to help themselves — they would help to alleviate unemployment too. END

As I See It!

By Malcolm Stewart

"IT DIDN'T TAKE LONG"

THE "honeymoon" in Soviet-American relations which began with President Kennedy's inauguration came to a crashing end with the renewed East-West clash over the Congo.

Developments of recent days should have disillusioned any gullible soul who might have believed that the Kremlin was embarking on a new era of sweet reasonableness.

Certainly now it is abundantly clear that Kennedy is to be subjected to the same whip-saw tactics which finally maneuvered President Eisenhower into an unprepared and ill-fated Summit Conference — alternate doses of soft soap and crisis to play on what the Kremlin hopes are decadent and frayed capitalistic nerves.

The dangers to the United States and the West are equally great, whether the Soviets use their "soft sell" or their tough line.

It is vital that the Kennedy Administration avoid being trapped on the same old merry-go-round. We can't afford to be swayed by whatever tactics the Kremlin decides to employ.

►**What's needed — what we hope will emerge from the current general "policy review" in Washington, is a tough and consistent approach to Russia on all major issues, along with a firm resistance to panicky or tired Allies who try to stampede us into unwise actions as their own fears ebb and flow.**

►**The second part of this approach is as important as the first part. Of course we need our Allies and it would be foolhardy to irritate them needlessly. But that is no reason to let Britain, West Germany or any others exert undue pressures on American policies simply to satisfy their own particular domestic political needs.**

►Kennedy would have been much wiser to get some assurance from Chancellor Konrad Adenauer that Germany will contribute her rightful share to the Western defense effort and the foreign aid program before promising him there would be no reduction in American military forces in Europe. He cut the ground from under our bargaining position by assuring Konrad Adenauer that we would fight for Berlin regardless.

►Operating beneath the umbrella of American nuclear protection, some of the European allies have been able to indulge in the luxury of wishful thinking and action which is denied the nation which must take the heat of International Communism's main blasts.

►**In the past, when the Soviet Union tried to trade on what it called a "spirit of coexistence," our Allies have pushed for concessions to take advantage of the alleged Russian "reasonableness." In periods of crisis, they have urged compromise and concessions to appease the Russian bear and avoid danger of open conflict.**

►**As a result, the United States has been in the difficult position of trying to establish immutable policies while its own Allies, by propaganda and pressure, were cutting much of the ground out from under our feet.**

We have bent over backward to keep our Allies contented in U. S. - financed alliances such as NATO, SEATO, CENTO without demanding a real sense of responsibility from them in return. We have acted as if they could exist without us but we could not survive without them.

Kennedy Tried

Kennedy went as far as he could during his first few weeks in office to avoid giving the Russians an excuse to get tough. He tried his best to keep Soviet-American relations on what he liked to call a basis of "civility." He offered in his Inaugural Address to negotiate in good faith on the major war-or-peace issues of the H-bomb age—disarmament, nuclear testing, Germany, Laos and the Congo. And he sternly ordered American Admirals, Generals and other government employees not concerned directly with foreign policy to soft-pedal their verbal blasts against the Russians.

He had no illusions that this air of cordiality would solve any of the deep problems. He only hoped to be able to take some of the bitterness out of surface exchanges to make it easier to discuss basic differences.

Kennedy hailed the Russian release of the two RB-47 airmen as removing a "serious obstacle" to better understanding. He ordered the airmen not to talk about their experiences lest this exacerbate the climate between Moscow and Washington.

All his efforts came to naught when the Kremlin seized on the killing of Communist-supported former Congolese Premier Lumumba to unleash the most vicious attack yet on the United Nations and the U. S. support of the World Organization.

Kennedy's initial reaction was tough — as it had to be. He grimly warned the Kremlin that the United States would not stand idly by while Russia tried to wreck the United Nations. He made it clear that the United States would take stern action if the Soviet Union attempted to intervene unilaterally in the Congo to promote the rump government in Stanleyville headed by Communist Antoine Gizenga. He called upon the United Nations to rally in support of the central government in Leopoldville of President Joseph Kasavubu.

And Kennedy pointedly reminded the other countries in the U. N.—particularly the smaller ones in Asia and Africa who sometimes show a suicidal tendency to follow the Soviet Pied Piper—that the United States could take care of itself but they badly needed the U. N. to insure their very existence.

Cartoon by Behrendt for "Echte Waarheid," The Hague, the Netherlands.

Enter the "Allies"

This was a good firm start. But there was bound to be pressure from well-meaning but panicky Allies before the new crisis had run its course or erupted into major civil war in the Congo.

The danger of erosion comes equally from those who believe some compromise with Russia is possible and those whose fear is so great they are willing to retreat. Unfortunately there appear to be large numbers in both categories around the world.

A major problem in evolving consistent American policies and tactics stems from pressures exerted here and abroad by those who either do not know or fail to remember the basic objective of International Communism. **They seem unable to remember the simple, salient fact that the Soviet Union and its allies are dedicated to one main objective — the eventual destruction by whatever means possible of the Western democratic system and the imposition of communism on the entire world. The tactics may vary — and they frequently do — and the propaganda tune is altered to suit the circumstances.**

There Is No Split Between Russia And Red China

The wishful thinkers have gained considerable false comfort of late from the obvious split between Russia and Red China over just how to go about liquidating the capitalistic system.

There is no question but that Moscow and Peking are sharply at odds on some points—of tactics. **But it should be remembered they differ only on tactics, not on the main objective. It would be sheerest folly to suppose that the Sino-Soviet split is going to reach such proportions that the Soviet Union would jump in bed with the United States.**

The Moscow Declaration of December 1960, issued after lengthy wrangling among the representatives of Communist parties from 80 countries, was a manifesto for the intensification of the Cold War. In essence, it was a revival of the Comintern.

It made some concessions to the Russian view that war is "not necessarily inevitable" to defeat capitalism. But in return the Chinese Communists got a pledge of more aggressive operations in behalf of "nationalistic" revolutions in Africa and Latin America. And in the Communist lexicon, "nationalistic" means "Communist."

The bitter new crisis whipped up in the Congo fits perfectly into the pattern charted by the December 1960 Manifesto.

A recognition of the unwavering purpose of International Communism and a determination not to be deluded by its varying maneuvers, does not mean that we should abandon any efforts to negotiate on major problems. Far from it.

► **It is possible that some progress may be made in lowering tensions in areas where there is mutual advantage.**

► A nuclear test ban and some form of arms reduction and control seem to offer the best prospect for some profitable negotiations; Kennedy is dedicated to trying.

► The important thing, at first, is to strengthen America's economic basis and build up its military defense if, as Kennedy claims, they are inadequate.

► Then the United States must pursue a consistent policy of negotiating from strength with a firm determination to avoid being led around by the nose every time the propaganda wind from the Kremlin changes.

It would be helpful if our Allies would join in this effort. END

Correction or More Rise?

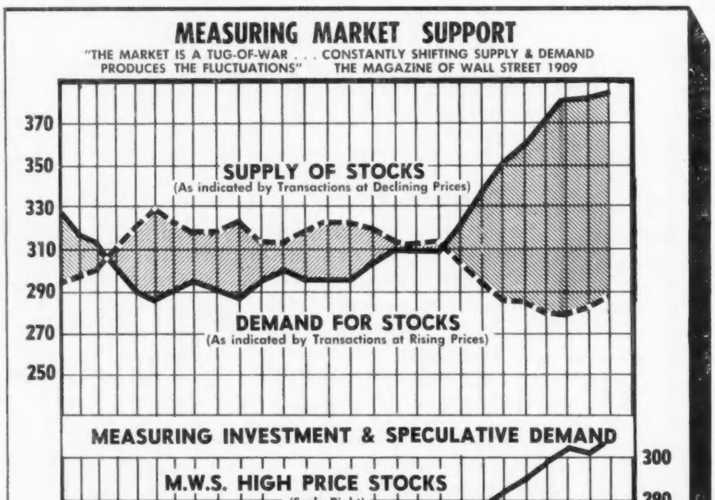
There are tentative indications that the market may be in a top area which could be hard to surmount for some time while there is a wait for events to give more tangible support to the highly hopeful forward discounting already seen. Hold sound equities. Go slowly and carefully on any new buying.

By A. T. MILLER

IT would be difficult, if not impossible, to rationalize any large further advance in average stock prices from here into or through the Spring, inasmuch as the market is so far ahead of the anticipated recovery in business volume and corporate earnings; and since the inflation threat probably is being exaggerated in speculative thinking.

A consolidating or corrective phase can hardly be avoided somewhere in here, whether or not preceded by some further upside efforts, possibly extending the series of buying climaxes within a moderate range of over-all movement before a precise intermediate top identifies itself.

The recent modest dip by the industrial average extended through the initial session last week, and was followed by a brisk upturn on heavy share turnover. But the latter ran out of steam by the end of the week, leaving the average a little short of its February 2 recovery level of 653.62. While the early-February intraday high was about equalled on Friday, volume was somewhat reduced on the day indicating less willingness by fund managers and other professionals to reach for stocks at the moment.



Test At Hand

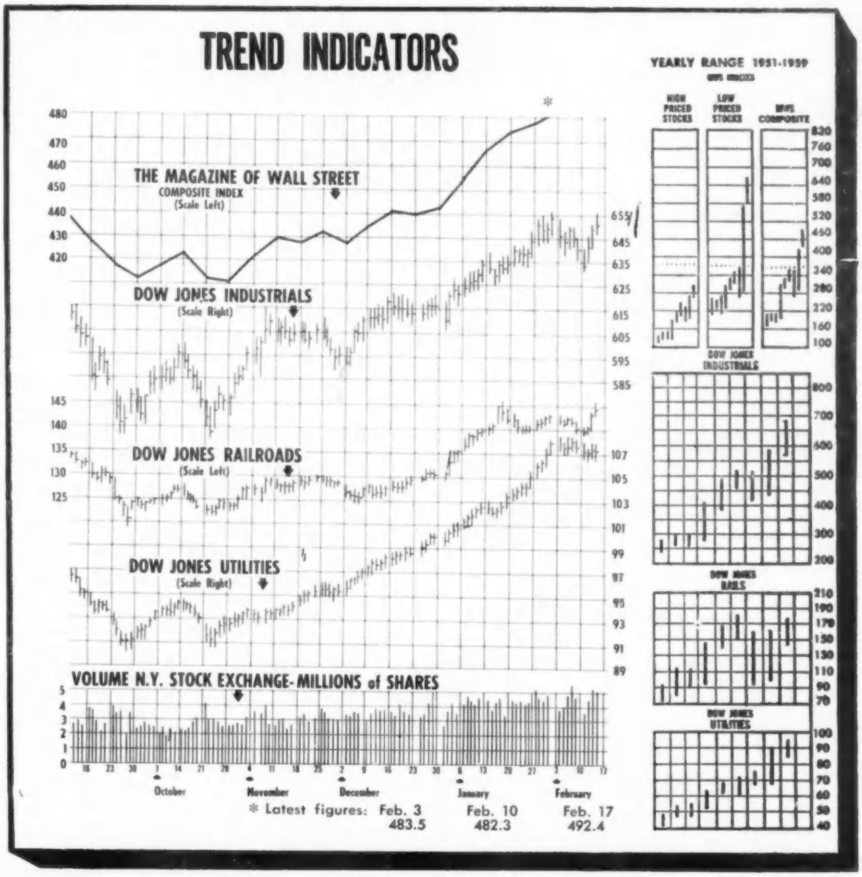
Performance of the rail average has been irregular since it attained a recovery high on January 18. A good spurt, mostly last Wednesday and Thursday, left it a fraction below the prior top. Following important rise for many weeks, utilities have levelled out in a tight trading range for some days, closing last week a fraction below the February 9 postwar peak. Thus, the market is at an interesting test point at this time. If strong fresh demand does not develop without much delay, there could be a sizable reaction.

People who count on a protracted major advance, as in 1954-1955 and 1958-1959, could well be disappointed. In the first place, a strong sustained rise from the already advanced level — with industrials generally around 20 times 1960 earnings and higher in relation to probable 1961 earnings — would take the market to an extreme verging on the stratosphere. In the second place, regardless of the technicalities of "bull-market" definition, moderate-range movement for extended periods has been more common, even in the mostly favorable postwar period, than the

spectacularly big advances. If you have forgotten this fact, look back on the charts for 1946-1949, 1952-1953 and 1956-1957.

While the fractional differences between the three 1956-1957 tops of the Dow average, all around 520-521, were phenomenally unusual, it may be worth noting the sequence of major or intermediate tops in more recent history: August, 1959, 679.36; January, 1960, 685.47; June, 1960, 656.42; and recently 653.32—with a maximum difference of about 32 points between them, equal to about 5% of the present valuation of the average.

It is true that some broader measures of industrial stock prices are ahead of "the Dow", as we have heretofore noted. But it should be added that they have not so far more than slightly exceeded the tops of January, 1960, or August, 1959. We are not debating whether or not stocks might go much higher. However, the future can be weeks or months or years.



We merely remind you that the rise since late October has been uncommonly fast for so short a period, that fast rises do not normally continue and that this could be another moderate-range market —as there is a seemingly logical case for, on the basis of fundamentals, with valuation high, the timing and vigor of business revival uncertain, a full recovery in business profits not assured.

Much is made of the fact that "confidence" is high, and of the theory that Kennedy policies will be inflationary. Confidence can never be measured, any more than fear or doubt can, so they are easy words to bandy; and those banking on "Kennedy inflation" surely have inadequate facts to go on at this stage. **Of course, it does not take much change in sentiment, however it is rationalized, to put stock prices up. There are great numbers of contented holders of good stocks, bought months or years ago at advantageous prices. They have no basis for shifting to cash or bonds. Many of them are perennial "sit-tighters." The result is a relative scarcity in the supply of desirable stocks for sale.**

Willingness To Buy

So institutions or individuals with new money to employ in equities must bid up for the "Blue Chips" or trade down into more speculative stocks.

Reluctance to sell good stocks and pay a capital gains tax up to 25% on long-term profits is fairly constant. It is the willingness to buy stocks that fluctuates and in due course the question of basic values must get sober consideration.

This market obviously has become more speculative. You see that in sharply expanded average trading activity. You see it in increased interest in low-priced stocks and many secondary cyclical stocks. At the same time, the preponderance of new highs in individual stocks and the wide favorable spread shown by our Supply-Demand Measures could be indicative of an over-bought market.

► As for the business news, suffice it to say that it will surely get worse before it gets any better, as suggested by durable-goods new orders and most other barometric indicators. To call it an inventory recession, as some loosely do, seems nearer a quarter truth than a half truth. It's primarily a durable goods recession, mostly in producers' equipment, housing, automobiles and home appliances. The reasons are not entirely cyclical. So the recovery may be sluggish, whatever Kennedy does.

► Regarding inflation, the "big" Kennedy deficit now predicted for fiscal-1962 is less than half the Eisenhower fiscal-1959 deficit—which did not bring a rush to spend or invest money just to get rid of it. Kennedy will do some "giving" but also some "taking". You have not yet heard about the New Frontier tax bite.

We don't expect the market will go through the roof or fall out of bed. In stock selection, intelligent conservatism has paid off generally better than speculation. Keep that in mind in your portfolio management.—Monday, February 20.

HOW'S BUSINESS TODAY?

. . . A First-Hand Regional Survey Of The 12 Federal Reserve Areas

By PAUL J. MAYNARD

- Where wide variations are inevitable under size and complexity of our economy
- What business looks like in each area — how it compares with a year ago — and looking to the year ahead
- Position of industry — retail trade picture — employment
- Areas that are prosperous — static — declining

ANY report about the state of economic or business conditions in the United States must be qualified as to its applicability to all the many areas and forms of economic activity in this broad land. **This is dramatized by the fact that even though 1960 as a whole was one of the most prosperous years in our history, there were and still are distress areas. At the same time that business is thriving in one part of the country it may be showing divergent trends in another area.**

The tendency for wide variations seems to be increasing as the size and complexity of our economy grows. This emphasizes the importance of specific knowledge about particular areas rather than generalities.

The whole is equal to the sum of all its parts. In the case of the economy of the United States, the twelve districts of the Federal Reserve System provide a relatively convenient starting point from which to integrate a comprehensive survey of national business conditions. Each of the Federal Reserve Banks maintains an economic staff which follows the business trends in its district and prepares monthly business review letters. While the economic and statistical information provided in these letters is not uniform, it is helpful in appraising the trends of economic activity in the various districts. Supplementation with material furnished by various other economic fact-gathering sources, however, continues to be not only desirable but essential. These other sources include state commerce departments, universities, chambers of com-

merce, state employment departments and commercial banks.

Maps of the United States by Federal Reserve districts show the state or parts of state groupings which make up each district. However, an important defect in these maps is that they are flat and do not show such things as the importance of steel in the Cleveland district, tobacco in the Richmond district, agriculture and food processing in the Minneapolis district, petroleum in the Dallas district, or lumber and aircraft in the San Francisco district. Nor do the maps show the divergent trends which may exist at any given moment in the principal types of economic activity in each of the districts.

We Are In A Recession

It is now a generally accepted fact that the over-all trend of general business conditions in the United States was downward during the last half of 1960. Many economists claim that the trend actually started to move away from prosperity and toward recession early in the year. **However, the over-all trend was the resultant of many elements just as an average disguises a multitude of widely different individual items.**

For example, personal income rose to a new peak last year, and 1960 was a good year for agriculture, for service industries and for many consumer non-durable businesses.

As is usually the case in the early stages of a recession, the hardest hit segments of the economy were those related to heavy producer goods or to consumer durables. In any current appraisal of the condition of the nation's economy the aforementioned background set of conditions must provide the starting point. These elements, of necessity, will color or pervade any regional survey of the present state of America's economy such as is undertaken herein.

In the interest of simplicity and coherence as well as orderly progression, the various Federal Reserve districts will be examined with respect to their most recent economic trends in order of numerical sequence; that is, by starting with the First District centering in Boston and ending with the Twelfth District, whose reserve city is San Francisco.

1. First District — Boston

The New England area continues to lag economically behind the rest of the nation, as indicated by most of the usually applied indices. However, there are some signs that the gap is no longer widening, or stated otherwise, the tendency for New England to lose ground in comparison with the rest of the nation is being checked.

► For example, the index of department stores sales (1947-49 = 100) increased in the nation last year from about 145 in January to 147 at the close of the year, while for New England the rise was from 126 to 128. Actually in the four week period ended January 14, 1961 the index of departments store sales showed a slightly larger increase for the First District than for the country as a whole.

► With respect to manufacturing, primary metals, shoes and leather and paper production gave good accounts of themselves in New England last year, compared to over-all manufacturing indices for the United States as a whole.

► Textile production, which showed about a 9% decline in New England last year, was the major factor in the falling off. New England's index of all manufacturing last year from 118 to 115. However, a special article in the December, *New England Business Review* on textile trends suggests that while New England textile employment dropped from about 280,000 in 1947 to 120,000 in 1960 and now is responsible for only about 9% of total regional manufacturing versus 19% in 1947, the story may be different over the next 10 years.

This is based on the large strides being made in increasing the productivity of New England's textile industry. For example, between 1947 and 1954 the average annual textile industry productivity gain was about 3.5% in the United States. The available statistical evidence suggests that New England's productivity gain during this period was roughly one-third greater.

2. Second District — New York

The Second District includes all of New York State, twelve primarily industrial counties in northern New Jersey and Fairfield County, Connecticut. The economy of New York State dominates the district. New York's industries are exceptionally well diversified and this accounted for the impressive steadiness of the district's economy during the year 1960, even through the period of general business unsettlement in the final months of the year.

► The seasonally adjusted Index of Business Activity in New York State set a record high of 140 (1947-49 = 100) in January and held near there in every month through November. The average for the first 11 months of the year was three points above that for the comparable 1959 period.

► Early strength in factory output was particularly responsible for 1960's better showing, even though its trend from the first of the year was downward; upward movements in other fields, including construction and service activity, offset this.

► **Labor** — While the number of persons in New York State in November holding nonfarm jobs totaled 6,287,500, the largest for any November, unemployment rose more than seasonally in November and December. Several major labor market areas — Albany, Schenectady, Troy, Buffalo, Utica and Rome — were listed as having a substantial labor surplus in November by the United States Department of Labor. This was one more than at the beginning of 1960.

► **Steel** — After the fast pace of early 1960, the nation's steel plants cut back operating rates sharply and worked at depressed levels through the rest of the year. In the week ended December 18, mills in the Buffalo District operated at 41% of capacity, compared with around 100% in the first quarter of the year.

► **Construction** — In New York State showed mixed trends. After a poor first quarter, influenced by bad weather, a steady uptrend was reported starting in June, and activity matched the year-ago level for the first time in October and exceeded it

in November. At the end of the year the outlook for construction in the state was stronger than at any time since 1959, because of unusually large contract awards in October and November. Contracts for residential building trailed 1959 levels but strength in nonresidential building (including World's Fair projects) and public works and utilities (especially awards for the Narrows Bridge) more than offset this.

► **Retail Trade** — Dollar sales of Second District department stores during the year through December 31 were 4% higher than in 1959. This was the best showing of any Federal Reserve District in the country. Sales in New York City and the Syracuse metropolitan area were up 1% over the year, those in the Rochester metropolitan area were 4% higher and the Buffalo area reported about the same volume in both periods.

3. Third District — Philadelphia

Mixed tendencies are apparent in Third District business activity. Capital expenditures of manufacturers in the Philadelphia area were the largest on record in 1960. In other respects the record for the year was not as encouraging.

► District figures covering the first eleven months of the year show virtually no change in the average level of over-all employment or in factory working time. ● Their failure to increase takes on added significance when it is recalled that a steel strike curtailed output over a period of several months in 1959 and had widespread repercussions in other fields. ● Car loadings in the Philadelphia region were fewer than in the corresponding period of 1959, and more marked declines were reported in anthracite coal production and in contracts let for residential construction. ● Sales of department stores were up only 1% but, as in the country as a whole, registrations of new passenger cars picked up considerably. Available statistics indicate that the economy of this district continues to be plagued by areas of unemployment, despite efforts to attract new industries.

4. Fourth District — Cleveland

The outstanding characteristic of this district, which includes all of Ohio, plus western Pennsylvania and part of Kentucky, is dependence on heavy industry. With about 40% of the nation's basic steel capacity located in this district, the impact of the drop in steel industry has been magnified.

► In mid-November, factory employment in the Fourth District was 9% below the point reached in February, the most recent peak. For the U. S. as a whole, the decline in manufacturing employment for the corresponding period was only 2%. As a result, the total factory work-force in the district in mid-November was only a little above the low point of the 1957-58 recession, while throughout the country, manufacturing employment was still much above that level.

► As might be expected from the decline in employment, unemployment has also increased in the Cleveland District. In mid-November insured unemployment in the district was 44% above the mid-February total, while unemployment claims in the U. S. as a whole showed an 8% decline over the same period.

Monthly Department Store Sales

Daily Average Sales Federal Reserve District	1947-49 = 100 1960 Dec.	 Nov.	 Oct.	Seasonally Adjusted 1959 Dec.	 Nov.	 Dec.
1. Boston	128	129	129	129	129	129
2. New York	135	131	140	135	134	140
3. Philadelphia	136	136	145	140	142	145
4. Cleveland	142	136	144	143	142	144
5. Richmond	154	150	162	156	156	162
6. Atlanta	187	179	189	185	189	189
7. Chicago	137	129	140	134	135	140
8. St. Louis	142	139	149	143	149	149
9. Minneapolis	138	137	138	133	131	138
10. Kansas City	160	157	164	155	156	164
11. Dallas	171	163	172	170	179	172
12. San Francisco	159	152	160	158	155	160
United Stataes	147	142	150	146	146	150

► As the year 1960 drew to a close, a number of spokesmen for heavy industry including especially the somewhat buffeted steel industry, were seeing on the horizon at least some signs of a revival in the pace of business orders. Few, however, were willing to commit themselves to a forecast of a very strong first quarter for 1961.

5. Fifth District — Richmond

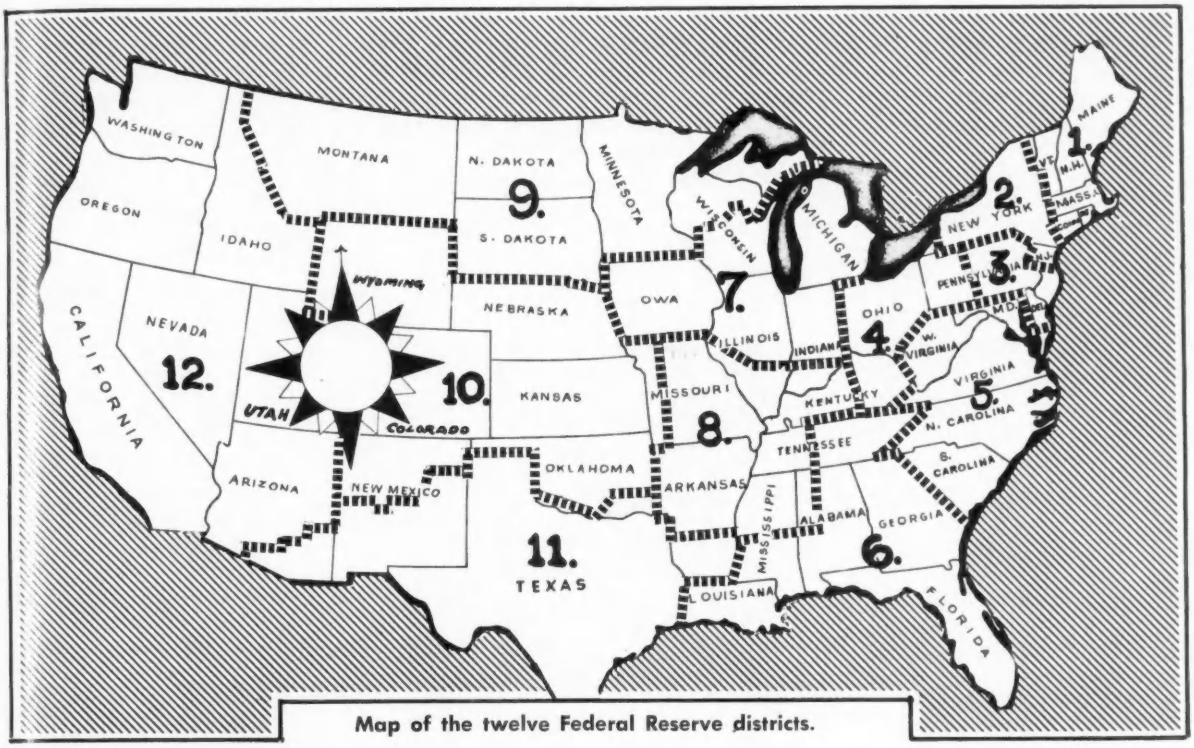
This district, which includes Virginia and West Virginia, Maryland and the Carolinas, continues to be one of the most prosperous. However, 1960, after beginning on a high level, failed to live up to expectations. ● The district's largest manufacturing industry, textiles, showed a keen sensitivity to current conditions. The year began with the largest textile backlogs in many years. However, May proved to be the industry's peak month, and from August on many cutbacks in orders were experienced. ● During the later months, hand-to-mouth purchasing and minimum inventory policies were the rule from retailers back to the mills. ● The furniture industry, another important district activity, after starting out ahead, wound up 1960 on a par with 1959, its best year.

► Brights spots in the Fifth District are the food and tobacco producing industries and agriculture generally, which activities appear to be relatively unaffected by general business trends. The food industry, doing well at the start of the year, declined unevenly through August then moved up again. Cigarette factories found the demand for their product strong, and presently increasing about 5% per year,

► With respect to agriculture, late seasonal gains for corn, tobacco, peanuts and other crops assured record crop production. Tobacco volume marketed exceeded that of the same period last year by 8%. Prices have held firm or shown some tendency to rise. Total income of farmers for 1960 was up as a result of bumper crops, with the prospect for some further improvement in farm income for 1961.

6. Sixth District — Atlanta

This district, which covers Georgia, Alabama, Florida, Mississippi and part of Tennessee, has been, like the Fifth District, one of the most prosperous districts. Its relatively high index of de-



Map of the twelve Federal Reserve districts.

partment store sales, 179 for November vs the national figure of 142, reflects this.

► *Evidence of contraction in the district's level of economic activity accumulated in November of last year — reflected in part in a decline in non-farm employment. In November, manufacturing employment fell for the third consecutive month. Lower employment and a shorter work week combined to reduce manufacturing payrolls to the lowest level since last March.*

► However, several strong elements in the district's economy have persisted. For example, crude oil production in Coastal Louisiana and Mississippi rose to a new record in November. ● In the same month and in December steel operations were about the October level. ● Farm income in the area has held at close to the 1959 high level. ● In Florida, where the bulk of the District winter vegetables are grown, interstate shipments have risen sharply in recent weeks to a level considerably above that of a year ago. Also, the index of prices received by farmers continues to be substantially higher than last year.

7. Seventh District — Chicago

This district includes most of northern Indiana and Illinois, together with a major portion of Wisconsin and Michigan as well as Iowa.

The gradual easing in total industrial production in the area, which began in July, continued into October and November. Virtually all types of manufacturing industries have reduced output and employment in some degree. During November a number of important Midwest industries, including autos, television and construction machinery, announced production cutbacks to reduce stocks of finished goods. Hopes for a stronger trend in machinery demand remained high, but machine tool orders declined in the early fall and cancellations of existing orders increased.

► With respect to total construction contracts, the Midwest in the third quarter of 1960 was 5% ahead of last year, versus the national average gain of 2%. However, nationally, housing permits were off 19% in the third quarter while Chicago was down 24%; Detroit, 29%, Milwaukee, 18%; and Indianapolis, 42%.

► Farm income for 1960 climbed more than was expected and is estimated to have exceeded the 1959 level. Cash receipts from farm marketings and realized net income of farm operators in 1961 are expected to remain close to 1960 levels.

8. Eighth District — St. Louis

Industry is fairly well diversified in the Eighth Reserve District and business cycles are generally more moderate than in "one-industry" areas. On balance, most economic indicators for district activities showed moderate improvement for 1960. Annual average employment at the five major labor market areas was up slightly from a year earlier. Manufacturers of hard goods reported employment declines in the closing months of the year, but most of the drop was offset by gains in non-durable goods industries, and total manufacturing employment averaged about the same as in 1959. In the final quarter, non-manufacturing increased seasonally bringing the job average in the five areas for the year about 2% above the year before. Unemployment was somewhat lower than in 1960 but all the five district areas are still listed as areas of moderate labor surplus except Evansville, which continues to be *(Please turn to page 623)*

POLITICAL PRESSURES THAT CAN DESTROY OUR ECONOMIC SYSTEM

—Washington and Corporate Profits

By WARD GATES

- **Profit margins now target of politicians**
- **A study of sales — earnings — and profit margins for leading groups — companies where the pinch has been felt since 1955**
- **Why depreciation and amortization charge-offs are essential for economic growth and private capital investment — how stockholders and indirect investors may fare under potential impact of bigger tax bite — lower profit margins**

ILL winds out of Washington indicate that various governmental sources are again about to level their big guns at corporate profits, the favorite target of politicians. These threats emanate from such diverse sources as the Kefauver Committee, the Justice Department and the Income Tax bureau—all of whom have long records of taking pot-shots at the profitability of corporations. But today, with a Democratic Administration once again in the saddle, the pressure is likely to increase substantially.

The reason is not hard to find. Somehow, political inspiration has managed to give the impression to the uninformed electorate that corporate profits are somehow immoral. Hence, when Mr. Kefauver trains his sights on the price structure of steel and other basic industries and accuses them of "administering" prices, he is really accusing them of profiteering. Certainly he does not allow for the fact that on the whole, corporate profit margins have been shrinking, and were it not for their ability to hold the price line on various items some companies might show heavy losses.

Somehow, Mr. Kefauvers attacks are reminiscent of the early '20's, when many corporations were individually owned. He does not seem to realize that these companies are not the property of millions of our citizens, whose savings can be seriously affected by his politically inspired exaggeration of the facts.

The senator's argument is easy to press, since unfortunately too few people really understand the role profits play in a free economy, and still fewer realize **that corporate profits have been the slowest growing component of the United States' Gross National Product.** Unless the role and the extent of corporate profitability is more clearly understood,

real danger exists that the government, by constantly pecking away at the foundation of our corporate structure, will ultimately destroy the fabric of our economic system.

The Facts of Corporate Profits

No one can doubt that an alert government, seeking cause, can always find evidence of some wrongdoing on the part of citizens and corporations, including instances of profiteering, sharp practices, and price-fixing. This is just as true in the political field, where crooked politicians rob the people of millions of dollars—or among labor unions, where racketeers rob the workers and innocent citizens by calling unjustified strikes, which means severe loss to innocent people—many of whom cannot afford it.

The recent conviction of numerous companies in the electrical equipment industry on price-fixing charges is just one of those things common to human nature at all times, when common sense and good judgment fly out the window under pressure, to save one's self in periods of stress. Unfortunately it goes to extremes in periods when ethical standards are being lowered, as they have been not only in this country but all over the world, as any sophisticated person knows. These people have been sent to jail and fined heavily, but the crooked labor leaders and grafting politicians are still among us.

But to draw the conclusion from these instances that corporations in general enjoy exorbitant profits is a gross distortion. There are many ways to measure profits, but on **all** counts, corporate earnings have been a most backward major segment in the economy. In 1960, for example, preliminary estimates indicate that all domestic corporations earned just under $22 billion, a 6½% decline from $23.5 billion in 1959. **The drop is not severe, but at $22 billion, recent profits are no higher than they were in the peak years of 1955-1956, and they are only slightly higher than they were as long ago as 1951-1952. As a percentage of Gross National Product, in fact, corporate profits have declined steadily, as GNP has climbed dramatically in the post-war years.**

Another way to measure profits is to determine the percentage of sales that end up in the corporate coffers. In brief, profit margins. Here too, the charge of excessive profits is impossible to justify. Ever since the first flush of prosperity after the war, profit margins have been slowly, but inexorably, declining. They averaged almost 7¢ out of each sales dollar back in 1950, while in the last three or four years margins have averaged only 5¢ out of each dollar.

What is significant in this context is that the erosion has been steady despite the billions upon billions of dollars corporations have poured into expansion and modernization programs in an effort to lower operating costs and raise profit margins. Obviously, the best they have been able to accomplish is slow the decline.

Profit margins are particularly significant at this juncture because we can expect governmental agencies to pounce on any increase as evidence of excessive profits. It is important, therefore, to distinguish between profit margins in the short term and in the long run.

Profit Margin Spurt Possible

Margins always increase sharply as the economy pulls out of recession because unit costs decrease as volume recovers, and this comes on top of an earlier tendency to raise prices wherever possible to compensate for the increased expense resulting from the loss in volume during the recession. Further, the heavy stocks of goods on hand can be sold without incurring new production costs. Hence, if after mid-1961, business begins to recover even slightly, profit margins should have a temporary pick-up. Invariably, however, these spurts last no longer than two quarters before the declining trend sets in again. The period of greatest political danger, however, will come when margins are rising. At that point it will be vital to differentiate this short-lived recovery in profit margins from the basic trend, which has been down, down, down for over ten long years.

Return on Stockholder's Investment

A third way of measuring profitability may be cited. That is to determine the return on the capital invested in any business. On this count, too, profitability has lagged far behind. Back in 1948-1950 corporations were typically earning 14.5¢ after taxes on each dollar invested. Since that time a steady decline has ensued, until the return has averaged just a little more than 10¢ on each dollar during the last half of the Fifties. In 1960 the average for the first three quarters was under 10.

This means that, despite the enormous sums shareholders have plowed back into corporations, they have not been able to increase the return on capital—and in fact have found themselves fighting a losing battle against rising costs, particularly labor and transportation.

Role of Profits

The evidence is obvious to the unpredjudiced eye, and is obtainable readily from ordinary government statistical sources. **Therefore, only political motivation can explain the constant sniping at corporate profits. Yet, the sniping is more dangerous than most people realize.**

Recent news items have emphasized the need to encourage investment through relaxed depreciation rules and other means. Little attention is paid to the basic fact that corporations invest in new plant and equipment in the hope of greater profits—not really because they are allowed to recapture the cost of new equipment more quickly. Adequate depreciation allowances are important, and can certainly serve as an additional inducement, but unless corporations can envisage worthwhile profits in new ventures or new capacity, new plant and equipment outlays will continue to lag.

Hence, the various attempts by different agencies of government to interfere with profitability will work at direct cross-purpose to the administration's stated intention to induce greater economic growth.

A look at a few potential attacks and their probable impact on profits is in order.

1.) The Justice Department and the Federal Trade Commission have broadened their anti-trust investigations to include the normal diversification designs of large corporations. Recently, the pro-

posed merger of Minnesota Mining & Manufacturing and Warner-Lambert has been held up for just this reason, despite the fact that the two companies are completely dissimilar and could hardly create monopolistic conditions in either of the two industries.

The investigators fail to understand that merger and diversification comprise the only avenues open to many corporations to increase their profitability under existing conditions. Unless they can do so, the small return to stockholders on additional invested capital is not worth pursuing, and expansion will come to a halt.

Retail organizations, for example, can squeeze just so much profit out of a given store. Unless they can open new ones their profit potential is strictly limited. Hence, several store chains that are short on capital are seeking mergers with companies in other industries that can provide the financing necessary for the construction of new outlets. The current trend of anti-trust action threatens this type of expansion, and thereby stands in the way of economic growth.

2.) Several Washington agencies are plumping for a higher corporate tax rate without clear understanding of what such a move would mean. After-tax profits, as we have seen, have failed to keep up with the growth of the economy and already provide limited incentive for further expansion. A 10% increase in the corporate tax levy would raise government revenues by about $4 billion, but would reduce profits to a dangerously low level.

Retained earnings provided $122 billion out of the $468 billion American corporations invested in new plant and equipment since the end of World War II. This amount was necessary to induce banks and other lenders to provide financing for the projects. **If retained earnings are reduced much further, either dividends will have to be reduced substantially (as also the taxes the government collects on**

Sales, Earnings & Profit Margins For Representative Companies In Major Groups, 1955-1960

	1955	1956	1957	1958	1959	1960
AGRICULTURAL MACHINERY:						
Deere & Co.						
Net Sales ($ Mil.)	339.5	314.5	388.1	472.6	542.5	468.5
Earn. Per Share ($)	3.91	2.67	3.96	6.06	7.23	2.57
Net Profit Margin (%)	8.3	6.3	7.3	8.9	8.8	3.7
International Harvester.						
Net Sales ($ Mil.)	1,165.7	1,252.0	1,171.3	1,093.3	1,363.1	1,683.3
Earn. Per Share ($)	3.60	3.16	2.88	2.69	5.10	3.40
Net Profit Margin (%)	4.7	3.9	3.9	3.9	5.6	3.1
ALUMINUM:						
Aluminum Co. of Amer.						
Net Sales ($ Mil.)	845.0	864.4	869.3	753.1	858.4	861.2
Earn. Per Share ($)	4.18	4.24	3.55	1.96	2.52	1.76
Net Profit Margin (%)	10.3	10.3	8.6	5.6	6.4	4.6
Reynolds Metals						
Net Sales ($ Mil.)	384.8	405.2	446.5	445.5	489.2	330.0[1]
Earn. Per Share ($)	2.27	2.62	2.19	2.24	2.41	.94[1]
Net Profit Margin (%)	8.9	10.1	8.4	8.5	9.1	5.7[1]
AUTOMOBILES:						
Chrysler						
Net Sales ($ Mil.)	3,466.2	2,676.3	3,564.9	2,165.3	2,642.9	3,007.0
Earn. Per Share ($)	11.49	2.29	13.75	d3.88	d0.62	3.61
Net Profit Margin (%)	2.8	.7	3.3	d1.5	d0.2	1.0
Ford Motor						
Net Sales ($ Mil.)	5,594.0	4,646.9	5,771.2	4,130.3	5,356.8	5,237.8
Earn. Per Share ($)	8.19	4.38	5.40	2.12	8.23	7.80
Net Profit Margin (%)	8.1	5.3	5.0	2.8	8.4	8.1
General Motors						
Net Sales ($ Mil.)	12,443.2	10,796.4	10,989.8	9,521.9	11,233.0	11,700.0
Earn. Per Share ($)	4.30	3.01	2.98	2.21	3.05	3.35
Net Profit Margin (%)	9.5	7.8	7.6	6.6	7.7	7.5
BUILDING:						
Johns-Manville						
Net Sales ($ Mil.)	284.7	310.3	308.3	331.7	377.5	365.1
Earn. Per Share ($)	3.67	3.50	2.48	2.82	3.73	3.12
Net Profit Margin (%)	8.2	8.0	5.7	7.0	8.3	7.2
U. S. Gypsum						
Net Sales ($ Mil.)	258.6	265.0	249.6	265.7	301.0	209.0[1]
Earn. Per Share ($)	4.98	5.01	4.78	5.05	5.70	3.60[1]
Net Profit Margin (%)	15.6	15.3	15.5	15.4	15.4	14.0[1]
CHEMICALS:						
Allied Chemical						
Net Sales ($ Mil.)	628.5	668.9	683.0	635.5	719.6	765.8
Earn. Per Share ($)	2.72	2.37	2.58	1.72	2.51	2.57
Net Profit Margin (%)	8.2	7.0	7.5	5.3	6.9	6.6
Monsanto Chemical						
Net Sales ($ Mil.)	522.3	541.8	567.1	547.9	615.3	890.5[2]
Earn. Per Share ($)	1.98	2.13	2.20	1.93	2.66	2.49[2]
Net Profit Margin (%)	8.0	7.1	6.6	6.3	7.9	7.6[2]
FOODS:						
General Foods						
Net Sales ($ Mil.)	824.8	931.1	971.3	1,008.9	1,052.9	846.0[1]
Earn. Per Share ($)	1.65	1.81	1.99	2.21	2.48	1.93[1]
Net Profit Margin (%)	3.8	4.1	4.3	4.8	5.1	5.6[1]
National Dairy Products						
Net Sales ($ Mil.)	1,260.2	1,352.8	1,432.3	1,451.2	1,605.7	1,250.8[1]
Earn. Per Share ($)	2.98	3.02	3.18	3.27	3.51	2.66[1]
Net Profit Margin (%)	3.2	3.0	3.0	3.1	3.0	3.0[1]
DRUGS:						
Parke, Davis & Co.						
Net Sales ($ Mil.)	123.1	134.1	162.2	172.5	191.5	200.0
Earn. Per Share ($)	.97	1.20	1.89	1.89	2.09	2.05
Net Profit Margin (%)	11.6	13.1	17.2	16.2	16.1	15.2
Pfizer (Chas.) & Co.						
Net Sales ($ Mil.)	163.8	178.3	207.1	222.7	253.6	201.6[1]
Earn. Per Share ($)	.98	1.12	1.41	1.48	1.51	1.13[1]
Net Profit Margin (%)	9.3	10.2	11.0	10.8	9.8	9.3[1]

1—9 months. 2—Including Chemstrand Corp. & Subs.

Sales, Earnings & Profit Margins For Representative Companies In Major Groups, 1955-1960 —(Continued)

	1955	1956	1957	1958	1959	1960
ELECTRICAL EQUIPMENT:						
General Electric						
Net Sales ($ Mil.)	3,421.9	4,043.5	4,298.9	4,088.4	4,322.8	4,197.5
Earn. Per Share ($)	2.29	2.45	2.84	2.77	3.17	2.26
Net Profit Margin (%)	6.0	5.2	5.7	5.9	6.4	4.7
Westinghouse Electric						
Net Sales ($ Mil.)	1,440.9	1,525.3	2,009.0	1,895.7	1,910.7	1,955.7
Earn. Per Share ($)	1.23	0.05	2.09	2.13	2.43	2.22
Net Profit Margin (%)	3.0	0.2	3.6	3.9	4.5	4.0
MACHINERY & MACH. TOOLS:						
Chicago Pneumatic Tool						
Net Sales ($ Mil.)	63.4	83.3	90.4	73.6	83.0	64.7[1]
Earn. Per Share ($)	2.19	2.44	3.14	1.72	2.09	1.57[1]
Net Profit Margin (%)	11.6	12.4	12.5	10.1	10.9	10.6[1]
Cincinnati Milling Mach.						
Net Sales ($ Mil.)	104.6	149.5	148.3	104.3	106.3	123.5
Earn. Per Share ($)	2.46	4.64	4.46	1.62	1.11	1.52
Net Profit Margin (%)	4.1	5.4	5.3	2.8	2.0	2.2
OFFICE EQUIPMENT:						
Burroughs Corp.						
Net Sales ($ Mil.)	217.8	271.7	281.1	292.5	358.1	389.2
Earn. Per Share ($)	2.19	2.35	1.67	.97	1.07	1.39
Net Profit Margin (%)	5.5	5.2	3.5	2.1	3.0	2.3
International Business Mach.						
Net Sales ($ Mil.)	563.5	734.3	1,004.4	1,171.7	1,309.7	1,436.0
Earn. Per Share ($)	3.63	4.16	4.90	6.93	7.97	9.18
Net Profit Margin (%)	9.9	9.3	8.9	10.7	11.1	11.7
OILS:						
Phillips Petroleum						
Net Sales ($ Mil.)	910.7	1,033.3	1,131.8	1,066.5	1,163.0	1,255.0
Earn. Per Share ($)	2.78	2.77	2.80	2.45	3.05	3.27
Net Profit Margin (%)	10.4	9.2	8.5	7.9	9.0	9.0
Standard Oil of New Jersey						
Net Sales ($ Mil.)	6,272.4	7,126.8	7,830.2	7,543.5	7,910.5	8,890.0
Earn. Per Share ($)	3.61	4.11	3.96	2.62	2.91	3.18
Net Profit Margin (%)	11.3	11.3	10.2	7.4	7.9	7.8
Texaco						
Net Sales ($ Mil.)	1,767.2	2,046.3	2,344.1	2,327.9	2,678.0	2,186.7[1]
Earn. Per Share ($)	4.79	5.51	5.94	5.24	5.85	4.61[1]
Net Profit Margin (%)	14.8	14.7	14.1	13.3	13.2	12.7[1]
PAPER:						
International Paper						
Net Sales ($ Mil.)	799.5	974.7	941.6	919.5	1,033.2	768.8[1]
Earn. Per Share ($)	2.51	2.35	2.06	1.82	2.07	1.31[1]
Net Profit Margin (%)	10.4	8.9	8.3	7.8	8.1	6.9[1]
Scott Paper						
Net Sales ($ Mil.)	246.6	270.3	275.0	285.0	297.1	313.2
Earn. Per Share ($)	2.65	2.78	2.68	2.75	3.08	3.40
Net Profit Margin (%)	8.6	8.2	7.8	7.7	8.3	8.8
STEEL:						
Bethlehem Steel						
Net Sales ($ Mil.)	2,096.6	2,326.7	2,603.7	2,005.9	2,055.7	2,178.1
Earn. Per Share ($)	4.52	3.83	4.13	2.91	2.44	2.52
Net Profit Margin (%)	8.6	6.9	7.3	6.8	5.7	5.5
Inland Steel						
Net Sales ($ Mil.)	659.7	727.1	763.9	655.9	705.0	755.7
Earn. Per Share ($)	3.17	3.14	3.45	2.77	2.77	2.68
Net Profit Margin (%)	7.9	7.2	7.7	7.3	6.8	6.2
U. S. Steel						
Net Sales ($ Mil.)	4,079.7	4,198.8	4,378.2	3,438.6	3,597.9	3,698.5
Earn. Per Share ($)	6.45	6.01	7.33	5.13	4.25	5.17
Net Profit Margin (%)	9.0	8.3	9.5	8.7	7.0	8.2
TIRES & RUBBER:						
Goodrich (B. F.)						
Net Sales ($ Mil.)	755.0	724.1	734.6	697.3	771.5	587.6[1]
Earn. Per Share ($)	5.26	4.90	4.40	3.95	4.18	2.68[1]
Net Profit Margin (%)	6.1	6.0	5.3	5.0	4.8	4.2[1]
Goodyear Tire & Rubber						
Net Sales ($ Mil.)	1,372.1	1,358.7	1,421.8	1,367.5	1,579.2	1,184.5[1]
Earn. Per Share ($)	1.96	2.01	2.04	2.03	2.29	1.59[1]
Net Profit Margin (%)	4.3	4.6	4.5	4.8	4.8	4.4[1]

1—9 months.

dividend distributions) or corporations will have to find new ways to finance the growth the government asserts it is seeking.

3.) Congress is again toying with the idea of limiting or entirely removing the depletion allowances that oil and other raw materials companies receive. To do so would dangerously threaten our raw material position. The reason: profits are not sufficient to induce raw material producers to undertake the exploration and development of new sources. Given a reasonable depreciation allowance, however, they are willing to risk their funds. In effect, they are able to employ the tax advantages realized from depleting resources to replenish supplies. In the process they have kept America rich in raw materials, and at low prices compared with most foreign products. If these companies were obliged to rely solely upon profits, however, dividends would be so severely restricted that investors would seek better opportunities outside of the natural resources field. Our raw materials base would then begin moving toward stagnation.

Individual Industries

The overall picture, covering all corporate enterprise is obvious from the above discussion. But what about individual industries? Perhaps there are some that have shown excessive earnings. If there are, the evidence is difficult to produce. **In the accompanying table we have shown the profit margins of major companies in several important industries since 1955. Almost without exception the best results show no progress, while most indicate declining profit margins over the period. The tabulation, incidentally, explains why the stock market has reacted so favorably to the few companies that have been able to raise their profit margins consistently. Their investment status has reflected their unique position.** *(Please turn to page 627)*

An Answer To The Recession...

REBUILDING OUR CITIES

—A project for private industry in team-work with government

By DR. EUGENE VAN CLEEF

- **Urban rehabilitation as a source of new jobs . . . use of raw materials — and products of all kinds and services — will produce higher asset values —and new source of revenue for government**
- **What imagination and courage can accomplish in creating beauty, utility and individuality for our cities and environs . . . encourage travel at home — bring visitors from abroad — help balance of payments — check gold drain**
- **Examples of what has already been accomplished in the cities that have a planned program — the greatly increasing values. Innovations that can make cities large and small exciting and interesting — and financially profitable too**

THE North American continent is as vast as Europe, possesses probably a wider range of climate and certainly offers equally beautiful natural scenery. Why, then, do so many Americans prefer to travel in Europe rather than on their own side of the Atlantic?

A little thought over this question will soon produce at least one answer. **Americans travel on their own continent mostly to see the country. They go to Europe to see the cities.**

To be sure, the European cities, simply because they are older than ours, do possess ancient cathedrals, art collections and interesting historical sites that are lacking here. But they also have something beyond this, a certain character, that attracts even the tourists entirely indifferent to history and culture. Even the secondary cities of Europe are usually aesthetically satisfying.

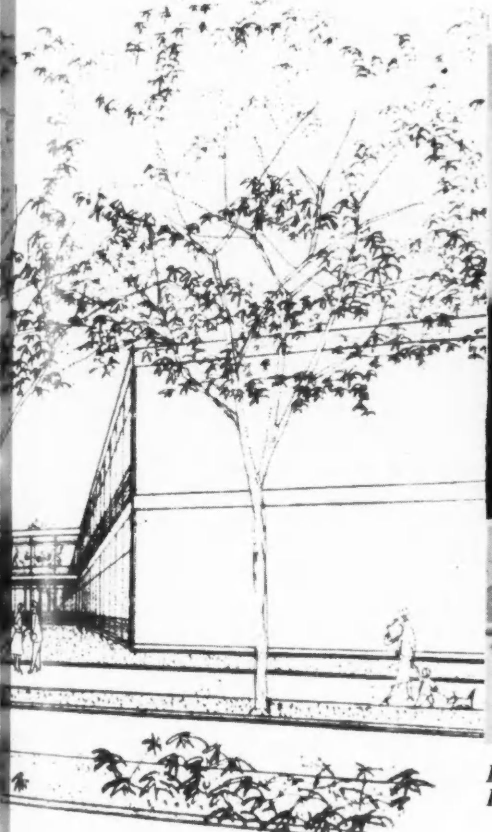
What is the situation we find, by contrast, here in the United States? Well, as novelist Frank Norris said many years ago, we do have three "story cities" in the United States—New York, New Orleans and San Francisco—but by and large our cities are drab, uninspiring and monotonous.

Other Reasons for Rebuilding Our Cities

The three cities mentioned above, and a few others, do have some individuality and are able to

---

Dr. Van Cleef, for 5 years Vice Chairman of both the Columbus City Planning Commission and Franklin County Regional Planning Commission.



Renewal involves people. Wooster Square residents at New Haven, Conn. discuss plans with Mayor Richard C. Lee.

attract many visitors. But most others, despite their possession of libraries, art galleries and auditoriums, are lacking in color and character. **The creation of a recognizable municipal "personality" would encourage more travel by our citizens in their own country and contribute at least in a small way to the alleviation of the gold drain.**

But even more important reasons for the imaginative reconstruction of our cities can be cited. The urban population, including both those within and clustered closely around our larger cities, is growing rapidly. Already some 85% of our people are city dwellers. Public officials have for many years, to be sure, taken pretty good care of their inhabitants' health and safety, but they have sadly neglected their convenience, recreation and visual satisfaction. And, if urgent early steps are not taken, conditions are likely to grow worse. Already many cities are being choked into paralysis, or their off-center districts falling into decay, as a result of heavy, uncoordinated vehicular traffic. Our cities must be rescued for the sake of the people who live in them.

Finally, at a time when many products and services are facing relative saturation and unemployment is at a post-war peak, the reconstruction of the cities will provide almost unlimited scope for the profitable employment of capital and labor. For all experience has shown that civic improvement not merely improves appearances but almost invariably it also pays, in terms of higher rentals and assessed values. This means, in turn, that most such projects could be privately financed and be financially self-supporting.

Not a New Idea

Somehow, with all the mechanical progress that has been made in this country, very little energy or ingenuity has been applied to ways and means of improving our overall "liveability."

In many respects we are in a civic rut. Experiments in designing more effective street and avenue networks, in devising more serviceable apartment buildings, in laying out more logically alternated residential and business districts and bringing about other improvements in suburban living, are still only in their initial stages.

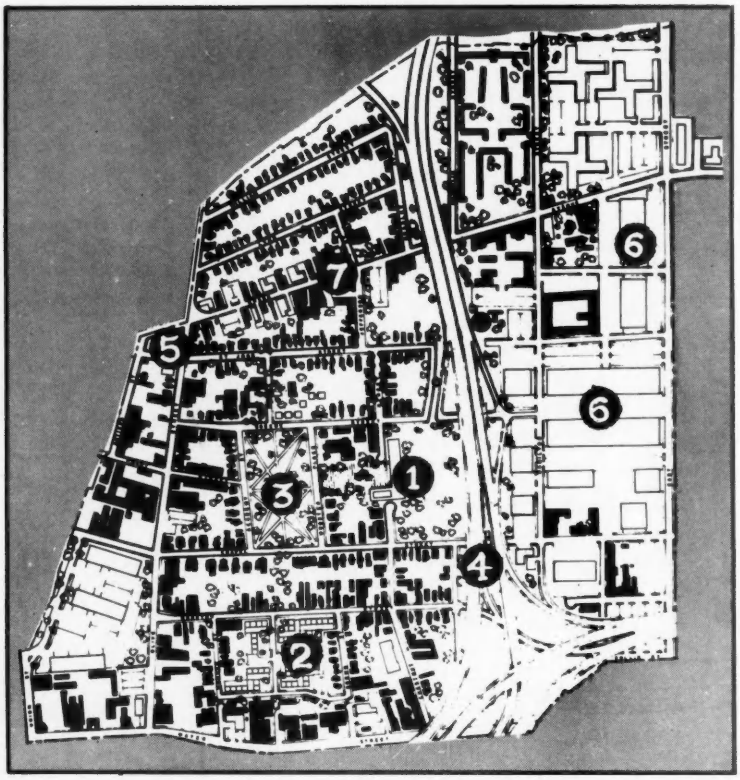
Even such minor points as night-time illumination, legible street signs and logical house-numbering systems have been sadly neglected and are exasperating to the stranger.

A virile leadership could accomplish notable results in all these areas. Changes are bound to come, in fact, but businessmen have a particular responsibility for seeing that they are soundly conceived. And it should not be too much of a platitude to say that opportunities both for public service and finan-

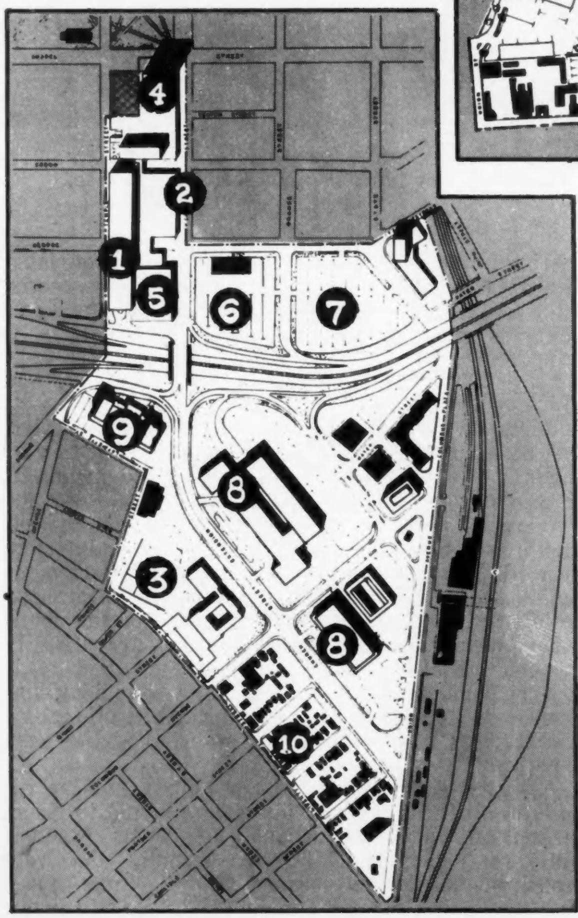
WE USE NEW HAVEN, CONNECTICUT
AS AN EXAMPLE OF A CITY'S SUCCESSFUL REDEVELOPMENT PROGRAM

"NEW LIFE FOR AN OLD NEIGHBORHOOD"

1. SCHOOL—COMMUNITY CENTER —School to open September, 1961.
2. NEW HOUSING—134 units of private housing adjacent to the Wooster Square Green. To start in 1961.
3. WOOSTER SQUARE — This spacious Green—surrounded by large old homes that add distinction to the neighborhood — provides a focal point for neighborhood activity.
4. INTERSTATE 91 (RELOCATED ROUTE 5)—Property acquisition by the State to begin 1960.
5. CENTRAL FIRE STATION — Construction scheduled for spring 1960. Completion 1961.
6. INDUSTRIAL DISTRICT—11 acres. Completion 1963.
7. GRAND AVENUE SHOPPING AREA—Limited clearance of worst properties will make land available for displaced firms or off-street parking. Work begins in 1961.



(Illustration through the Courtesy of Maurice E. H. Rotival & Associates Planning Consultants)



"REVITALIZING DOWNTOWN NEW HAVEN"

1. SHOPPERS' GARAGE—Indoor Parking for 1,500 cars. Direct access to retail shopping through Church Street Tunnel. Completion 1961.
2. CHURCH STREET—Widened 20 feet from George to Chapel, and extended from George Street to Railroad Station. Completion 1962.
3. SCHOOL - RECREATION FACILITY FOR THE HILL—Eight-acre site allocated for new Junior High School and recreational facilities in the area of Prince Street School.
4. HOTEL—300 rooms, banquet facilities for 1,000. Completion 1963.
5. DEPARTMENT STORE—240,000 square feet of selling space on 3 floors and basement. Completion 1961.
6. DOWNTOWN SHOPPING TRIANGLE — Temporary Business Relocation Structure — Completed February 1959.
7. CONNECTOR PARKING LOTS — Will provide 1,500 parking spaces in strategic area.
8. COMMERCIAL PARK—19 acres to be developed for office and research uses.
9. MEDICAL-DENTAL CENTER — 12 stories, 108 suites. Completion 1961.
10. RESIDENTIAL REHABILITATION—Already begun in the southern portion of the project area.

cial profit await those possessed of the requisite imagination and courage.

Chicago an Innovator at Turn of Century

But it is unfair to suggest that nothing has so far been accomplished in this field. As long ago as the turn of the century, the city of Chicago decided to extend the widening of downtown Michigan Boulevard for two blocks, as one step in the implementation of the noted Burnham plan to put a halt to the hit-and-miss development of the city. **Adoption of Burnham's suggestion meant cutting back the building fronts of some existing structures, and property owners protested vigorously. They certainly had no intention, they asserted, of paying for an action that was for the benefit of the city. But the council pushed the project through, despite this opposition. The eventual results of the reconstruction were highly satisfying. Adjacent property values increased about 16-fold. The owners were delighted, and actually boasted of their own foresight.**

Other aspects of the same plan resulted in the removal of an unsightly and inefficient wholesale produce market, the razing of dilapidated warehouses and the erection of ornamental walls flanking the river. Unfortunately, the initial enthusiasm was spent with these improvements, and Chicago again sank into a lethargy from which it is only beginning to arouse itself.

► **More recently,** Philadelphia has revitalized its center by the removal of the old "Chinese Wall"—the railroad tracks leading into the former Broad Street Station. And over a century ago Mayor Kingsland of New York had the foresight to recommend the laying out of 840-acre Central Park, when few people imagined the city would ever extend that far north.

But, by and large, such examples represent the exception rather than the rule. Ordinarily, the growth of our cities has been unplanned, uncoordinated, and sometimes even unintelligent.

Importance of Planning

Every alert businessman and corporation looks ahead to insure a certain desired growth. Few persons, indeed, would challenge the wisdom of such a course. Amazingly enough, however, many of those same far-seeing individuals and institutions show a lukewarm attitude, if not actual opposition, toward similar planning applied to their city, the largest of all the local corporations. Too often constructive action is delayed until conditions become intolerable and then, oftentimes, it is too late to rescue the situation because costs have become prohibitive. The consequent loss due to this negligence arising out of provincial thinking is irretrievable. Our cities have been allowed to explode too long. The resultant patterns with their numerous blighted areas and hodgepodge distribution of services have proved to be models of terrific waste.

Among the fundamental gains to be derived from well ordered planning are the stimulation of the local economy through the revitalization of physical properties and increases in their values. If evidence be needed in support of this statement, testimony may be cited from representatives of Pittsburgh, Pa., Kalamazoo, Mich., Knoxville, Tenn., or New Haven, Conn., other communities which have recently been engaged in rejuvenating themselves. Other witnesses are available, but not as many as one could wish for. The witness from Knoxville would testify, for example, that the new "promenade is a monument to what a determined people can do in a community."

The Struggle to Save the Down-town Districts

Among the critical problems facing the larger cities today is the threat to their downtown districts. The nation's commercial and industrial real property, most of it located in the center or near-centers of the cities, has an assessed valuation in excess of $58 billion. Any significant decline in this figure, not compensated for elsewhere, is a threat to the welfare of the whole citizenry.

Toledo, Ohio, and St. Louis, Mo., as examples, report that their tax returns from their central business districts range between 17% and 20% of their total tax revenues. Yet the districts themselves from which the taxes are collected equal only one percent of their respective total urban areas. The startling aspect is that these ratios are declining while revenues in outlying areas are not increasing sufficiently to balance the downtown losses.

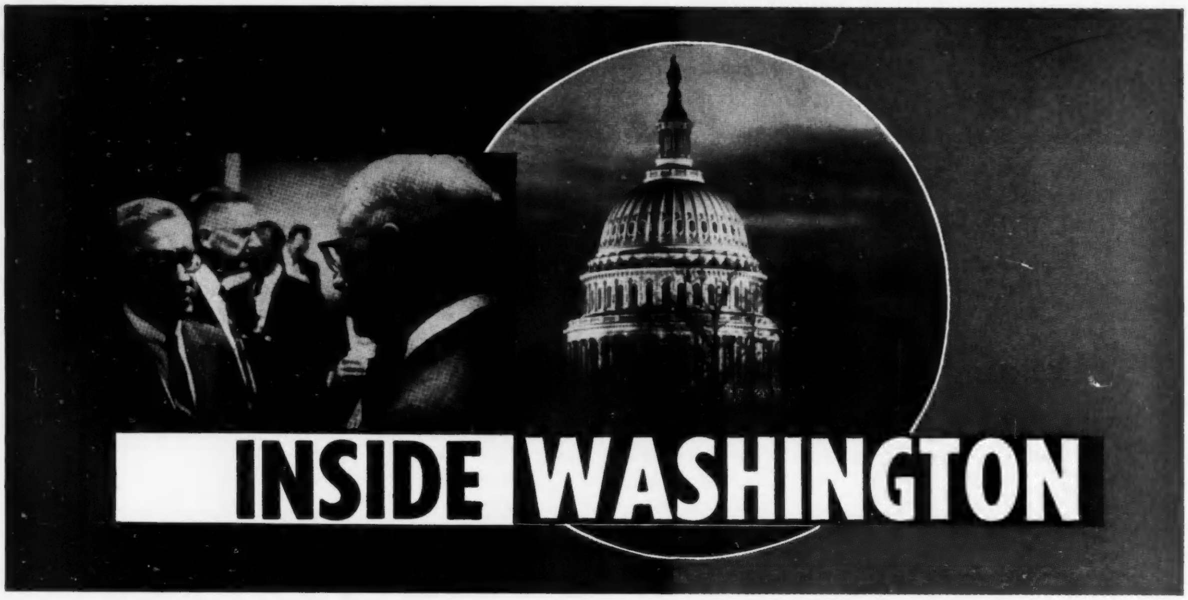
This is chiefly because land is basically cheaper in outlying areas than in the heart of the city and, in many instances, new industrial plants and shopping centers locate just beyond the city boundaries to avoid the city's higher tax rate. Of all new plants erected in recent years, 70 per cent have located either in partly developed or wholly open country. Another contributing factor, particularly in cities where zoning laws are inadequate, is the transfer of plants to residential neighborhoods, thereby depressing residential property values and tax yields below the contributions of the business establishments.

All of this chaos can be ended and more stable economic conditions brought about if our cities will engage earnestly in planning. Such planning must not be on a temporary shot-in-the-arm basis but for the long term.

Adaptation to Change

In examining a central business district for ways and means of saving it, it should be recognized that many of the changes have been a normal reaction to the times. Prominent among them have been the influx of the motor vehicle, the surge to individual home ownership, the rapid growth in population numbers and other factors. No one would find fault with such evolutionary adjustments. Our error is that we have let these things happen without taking any serious measures to guide them. Some persons have even exploited these events to their own selfish advantage at the expense of the unwary public.

In seeking a way out of the current chaotic situation we must decide whether some of the important advantages of the outlying zones can be transferred to the central business districts, or whether the latter have unique attributes of their own which can be capitalized upon to compensate for the losses. Downtown areas do, for example, possess the valuable quality of centrality. The greatest concentration of a variety of services to be found anywhere in the cities is located within a few compact blocks. This is an advantage *(Please turn to page 624)*



INSIDE WASHINGTON

BY "VERITAS"

LABOR "rides high, wide and handsome" in the Kennedy Administration, according to quiet boasts of AFL-CIO leaders who are supported in this view by close students of the labor movement. Pointed to is fact that of seven top Labor Department officials, five are from the ranks of the AFL-CIO — Secretary of Labor Goldberg, three Assistant Secretaries and Labor Department's chief legal counsel. Labor already boasts of Goldberg's "settlement" of the New York City tugboat issue; not a real settlement, merely a one-year postponement of the featherbedding problem. The Mitchell Committee on rail featherbedding now wrestles with the situation. Meanwhile, executives of the rail unions, operating and non-operating, plainly indicate they will vigorously fight to retain featherbedding privileges, regardles of whether it would mean insolvency for the carriers, or government takeover, which would be a severe setback for the unions.

WASHINGTON SEES:

A rather highly "personalized" Federal establishment is definitely in the making with President Kennedy setting the pattern from the White House, by example, not by orders to departmental and Agency heads.

Very early in his tenure, the President made it a point to give his numerous aides authority to make themselves readily accesible to outsiders having legitimate business with the White House. Of equal importance they are to be more readily available to one another, to their subordinates, and to the various Departmental big-wigs.

Despite the pressing volume of business daily confronting the President, he is making himself more accessible to those in Washington who have to look to him for guidance in policy matters; a sort of people-to-people and face-to-face arrangement with less "channelization."

One Cabinet Officer, Interior Secretary Stewart L. Udall has moved swiftly to follow the pattern set by the President, setting aside one afternoon a week for informal reception in his office for employees of his own Department, representatives of other Departments, and non-government people.

Udall gives the employees a little talk after they have lined up for a get acquainted handshake. Observers from other Departments think well of the idea and predict that it will spread through all of government in a matter of weeks.

RAYBURN victory in House fight to "stack" the Rules Committee with Pro-Administration Congressmen is regarded as "hollow," especially for the man in the White House. The five-vote margin by which the Speaker carried his point is regarded as too narrow to be decisive. Further, the new Congress may prove to be is more conservative than the last. Although the so-called bottleneck of the Rules group may have been broken, thus clearing New Frontier legislation for floor action, there can be no assurance to Mr. Kennedy that the bulk of his proposals will pass the full House. On the other (Senate) side of Capitol Hill, many of the Kennedy spending proposals will have to hurdle either the Finance or Banking and Currency Committees, both very much on the conservative side of the ledger.

INFORMATION is in trouble. That is, the U. S. Information Agency, our world-wide propaganda arm, operated and directed by the Chief of USIA. Some Capitol Hillians are not very fond of President Kennedy's selection of radio-television commentator Edward R. Murrow to head the Agency to direct the broadcasts of the Voice of America to the world. There will be no legislative effort to keep Mr. Murrow from the job, but when it comes time for appropriations to run USIA these Congressmen may succeed in tightening the purse strings. Objectors to Mr Murrow accuse the appointee of being consistently biased in his reporting; too far to the left; and generally a self-appointed arbiter of what is right or wrong . . . He had best keep his fingers crossed when he asks appropriations for the coming fiscal year.

As We Go To Press

Federal Damage Suits Against Electrical Contractors May Not Materialize. Although Justice Department is going ahead with preparations for recovery through the Courts, it is now believed that settlement will come through negotiations rather than at the Bar. The volume of work necessary to itemize and prove damage is so vast that Government would prefer out-of-court settlements as a matter of economy. It can be said, however, that if offending companies are too dilatory with negotiations, or do not make "reasonable" offers, suits will be entered. Two companies already have negotiating teams working quietly in Washington, but there is no clear indication of their progress at this moment.

New Federal Judges (59) Proposed By The Attorney General Already Selected. Their names, of course, are not yet known outside Justice Dept. and White House circles, and even now are closely guarded from prying eyes of Capitol Hill.

Republicans are demanding at least 20 of the 59, but Democrats retort that in his two terms in the White House, President Eisenhower's appointments of Democrats to the Federal Bench were in a ratio of less than one in 10 — and that Mr. Kennedy will follow the same norm. Omitted from the request was two Judges for the U. S. Tax Court with a heavy backlog of cases. Look for Commissioner of Revenue to press for two, perhaps three, new Justices for his "bailiwick."

Over-All Transportation Coordinator Has Slight Possibility Of Congressional Okay — not, however, with the broad powers recommended in the so-called Landis Report. Ranking Members of House and Senate Interstate Commerce Committees are privately agreed that the transportation regulatory agencies — Interstate Commerce Commission, Civil Aeronautics Board, Federal Aviation Agency, Army Corps of Engineers, etc., are simply not "working together," and too frequently at cross purposes. Problem for the Committees is legislation to bring about intelligent coordination without creation of a transportation "Czar," thus virtually destroying the autonomy of the various agencies.

Labor Hedges On Rapid Tax Write-Offs To Encourage Plant Expansion. A few weeks ago the AFL-CIO readied itself to support more realistic depreciation schedules — schedules which date back to 1933. Now, one segment, as represented by UAW President Walter P. Reuther, will oppose any changes. Reuther's argument: Additional incentives (tax concessions) for investment in plant and equipment (are unnecessary and unwise concessions . . . Encouragement of investment to expand capacity is of dubious merit when industry is operating only about 75 percent of its present capacity.

President's Expanded Unemployment Benefits Plan Faces Capitol Hill Paring. This is considered opinion in both House Ways & Means and Senate Finance Committees where there is some skepticism that the plan submitted by th President is absolutely necessary. There is quiet agreement that some expansion is necessary, but not nearly to the extent suggested by Mr. Kennedy. Also there is the view that the increased payroll tax needed to meet cost will work hardship on many businesses and thus create more unemployment. Ways & Means Committee will come closest to endorsing the President's unemployment package; real paring will come from Senate Finance group. It will be some weeks before House completes action on the measure, while Senate may not get around to it before Mid-May.

Medical Care For Aged, A Capstone In The Kennedy "Arch," Will Clear Congress By June. Not, however, as requested by the President. His inclusion of "deductibles," primarily designed to balk malingering, will be helpful to passage but it is to be doubted that direct Federal grants for medical, nursing and other assistance — scholarships, hospital and nursing school construction, etc., will get approval. In all probability,

the final measure will be one to provide medical assistance to the aged through the Social Security system with an additional ¼ of 1% payroll levy on employers and employees up to $5,000 annual wages. The measure will be vigorously opposed by the American Medical Association, but it has gotten considerable boost from endorsements by two former Secretaries of Health, Education, and Welfare — Folsom and Flemming, both Republicans.

Gold Depletion Continues Administration Headache. Losses of Armed Forces officers and top flight enlisted personnel because of President Eisenhower's "come home" order to families, forced President Kennedy to rescind the order — never applied to families of our multitude of overseas civilian operations. President Kennedy's 18-point program to protect the gold dollar has wide Congressional support, but foreign co-operation is dubious. In the meanwhile, there can be no doubt that excessive wage demands of domestic labor have contributed much to the present situation, so much so that in the past five years U. S. Corporations have invested in excess of $30 billion in overseas plants and facilities — to enable them to compete in foreign markets with sizeable portions of their European production brought to the U. S. Labor's only solution to the problem is the promise of all-out efforts to bring foreign wage scales on a par with those prevailing here — an impossible accomplishment.

Elsewhere on the gold front, Congress is being pressed from responsible quarters to consolidate our foreign information, educational, and cultural programs in a single agency. Proponents of the plan believe that we could reduce our overseas civilian program by at least 60%, operate more efficiently, and at the same time cut drain on gold by as much as $200 million annually. The estimate seems high, perhaps $120 million would be more nearly correct. No doubt the greatest advantage would be propaganda-wise — less wasteful duplication and less foreign "resentment against opulent Americans."

Atomic Energy Commission (AEC) Disturbed By Safety Factors Involved In Operation Of Reactors. Upset came with recent fatal explosion of a reactor in Idaho. It has brought about a series of public hearings on reactor safety, but back-stage AEC has top experts studying the safety factor, presumably solved two or three years ago. The Commission has now drafted a so-called "Criteria of Safety Factors" in reactor operation, but experts outside AEC think they fall short. Reactors — primarily for electric generation — continue under construction, but one has been halted by a Federal Court Order, while a second (now being built in Pennsylvania) is under attack from the safety angle. In the meanwhile, electric generation thru atomic power is still far more costly than steam or hydro. One unquotable AEC source feels that atomic power will find its greatest applicability at sea, "not on land," meaning, of course, the powering of submarines. Merchant ship use of atomic power requires too great initial capital outlay to be economically feasible, he said, but without reference to the safety factor. It is not only in the area of power reactors that AEC surveys the safety scene — medical, food processing and a host of other uses of radioactive elements are being carefully conned by the Commission's staff and private research institutions — universities, etc. — now operating under AEC grants.

Federal Employee Unions To Push For Unreasonable Retirement Benefits. Spearheaded by the Independent Federation of Federal Employees, organized (AFL-CIO) Federal employees — —including those of the postal service — will try to lobby into law, legislation which would permit Federal employees to retire (on pension) after 30 years of service regardless of age (present minimum age is 35, just as is generally accepted in private industry). Considering that average age of those entering Federal civil employment is 24, retirement could come at age 54, not only adding to government costs but competitively adding to the labor force because the under-65 retiree would seek private employment at "cut rates."

Government Research And Development Expenditures To Reach All-Time High. When the "books are closed" on fiscal 1961 it will be revealed that Uncle Sam's expenditures and commitments for research and development will total $9.1 billion, about 10% more than in 1960, with Defense, Atomic Energy Commission, and National Aeronautics and Space Administration getting $7.6 billion of the "take."

PART TWO

WHAT 1960 ANNUAL EARNINGS REPORTS REVEAL

—Looking to 1961

By ROBERT B. SHAW

—With special reports on construction—containers —food and tobacco —drugs — automotive — metals — and other groups

THE pattern of last years' corporate earnings results was already pretty clear at the time the first part of this article was published, two weeks ago. Reports subsequently released have done nothing to change the somber picture. To be sure, a few isolated examples of sharp improvement can be picked out, but most companies merely issued another chapter of the same dreary story: negligible sales gains and reduced profit margins.

Of the 98 leading manufacturing companies covered in the tables in the present and preceding installments, 14 have not as yet announced their 1960 sales volume. Aggregate sales for the remaining 84 organizations advanced a mere 2.4% to $82.1 billion in 1960 from $80.0 billion in 1959. This was not enough to cover the built-in expense spiral, and average profit margin for this sample dropped to 6.2% from 6.7%. Whereas 56 of the 84 companies were able to report sales increases of some degree, only 43 out of the total representation of 98 companies managed to achieve any improvement in net.

Oils Make it Nearly Unanimous

With plenty of uninspiring reports to cover, it may be just as well to look at one specimen of good news first. The remaining oil companies have clear-

ly confirmed the recovery that was already noted in that industry two weeks ago. Most of the oils do not disclose sales volume in their preliminary statements, but **Atlantic Refining** reported a 3.6% gain in gross to $561.2 millions, **Standard of Indiana** 2.8% to $2,038 millions, **Sun** a nominal improvement and **Union Oil** a full 5% advance to $532 million in sales. **What is more impressive, every one of these enjoyed a lift in profit margin, Atlantic leading the parade with a jump to 8.2% of sales from 5.5% in 1959.**

Two companies, in fact, **Philips** and **Continental,** have just reported all-time profit records, while only a single major oil so far, **Shell,** suffered a setback in 1960. These cheering results reflected primarily a reduction in refinery runs and somewhat firmer prices during the second half. The severe winter, if it inhibits driving somewhat, should produce very heavy sales of gas and fuel oil. While world-wide overcapacity will remain a vexing problem, a larger number of companies should turn in record earnings in 1961.

Contrast Between Coppers and Aluminum

Copper companies also provided their stockholders with considerable comfort in the year just ended. Again, most of these have not reported sales volume, but **American Metal Climax** boosted net per share to $2.71 from $2.15 in 1959, **American Smelting** more than doubled its earnings to $3.72 a share from $1.74, and **Phelps Dodge** registered a more modest advance to $3.68 from $3.41. Although investors often think first of its important African interests, **American Metal** derived about $1.55 a share of its 1960 earnings from its Climax division in Colorado, 20¢ from the Southwest Potash Corp. and 30¢ from its metal trading department, making it still very substantially a domestic company.

American Smelting's impressive recovery was primarily due to an improved foreign demand for copper; this organization is gradually shifting its emphasis from custom smelting to mining on its own initiative. Copper companies can be expected at least to maintain these recent gains in the year ahead, even though the domestic price recently dropped 1¢ a pound.

Aluminum, however, had less to rejoice about. Big **Aluminum Co.** reported sales substantially unchanged from the $858 million for 1959 and suffered a simultaneous profit margin squeeze to 4.6% from 6.4%. Resultant earnings of $1.76 still covered the $1.20 dividend comfortably and demand will surely catch up with present capacity within two or three years, but the immediate outlook cannot be considered exciting.

Ford and GE No Exception to General Trend

Among the companies which have just issued preliminary 1960 earnings reports are two giants, **Ford** and **General Electric;** both suffered a decline of about 3% in sales volume, and General Electric also had to endure a rather considerable set-back in earnings, to $2.26 from $3.19 a share in 1959. Ford, on the other hand, was able to maintain its profit margin pretty nearly steady and thus got off with a more moderate drop in net per share, to $7.80 from $8.24 a year ago.

GE had a variety of factors to blame for its poor results. The appliance market was bad throughout the year, excessive inventories of other items proved annoying and a three weeks' strike in October did not help. Under these circumstances the company's ability to make larger physical shipments last year than ever before was a real accomplishment, although it provides unfavorable testimony as to the price structure. It would be unduly optimistic to expect any early improvement in most of these conditions, while the threat of heavy price-fixing awards also depresses the outlook for this company at present.

While Ford has now conceded that 1961 will not be as good an automobile season as last year (although General Motors and Chrysler have not yet conceded this) and as some further earnings decline is indicated, the stock looks rather reasonably priced at its present level.

Auto Parts Makers' Results Not Inspiring

The auto accessories did not do too badly from a sales standpoint, but earnings were another story. The Budd Company, for instance, suffered the frustration of seeing materially higher sales —up 9% from 1959 — whittled away by uncontrolled expenses, and earnings plummeted from $2.41 to 96¢ a share. This has already forced a reduction in the former $1 dividend rate. While several temporary factors were largely responsible for last year's unfortunate results, little if any improvement can be expected in 1961. **Libbey-Owens-Ford,** more closely identified with the automobile industry than Pittsburgh Plate Glass, saw a 3½% drop in sales last year and a decline to $4.18 in net per share from $5.13. The increased proportion of smaller cars, as well as the somewhat unfavorable outlook for unit output, will continue to hurt Libbey. Nevertheless, the stock has receded considerably below its 1959 high and looks like relatively good value at present. The $2.55 dividend remains well protected.

Electric Storage Battery managed to boost its sales narrowly, and came close to holding the profit margin line, with the results that net per share for 1959 remained substantially unchanged at $3.58. The present cold winter, putting a heavy strain upon batteries, should help the company. **Borg-Warner,** on the other hand, suffered a sharp, 10% drop in sales volume, to $587 million, and under this handicap the company did well to limit the decline in net per share to $3.01 from $4.36 in 1939. The $2 dividend looks fairly secure, but no significant earnings recovery can be expected this year.

Containers Leaking Badly

Often regarded as a stable income category, container stocks showed little resistance to the adverse conditions prevailing last year. The two can makers, **American** and **Continental,** now of very nearly identical size, each showed a drop of approximately 5% in sales. When compounded by a reduction, more severe in the case of Continental, in their already low profit margins, earning results were distinctly unpleasant. With its net down to $2.06 per share from $2.42 in 1959, American only covered its $2. dividend by the skin of its teeth, and the rate obviously cannot be considered secure. Continental's drop was even sharper, to $2.21 from $3.20, although the $1.80 dividend is still better

Comparative Sales, Earnings & Net Profit of Leading Companies

	Net Sales 1959	Net Sales 1960	Net Profit Margin 1959	Net Profit Margin 1960	Net Per Share 1959	Net Per Share 1960	Net Per Quarter 1960 1st	2nd	3rd	4th
	(Millions)		%							
Allegheny Ludlum Steel	$230.6	$238.7	4.8%	3.6%	$2.92	$2.25	$1.24	$ .19	$ .17	$ .65
Aluminum Co. of America	858.4	861.2	6.4	4.6	2.52	1.76	.56	.40	.39	.43
American Can	1,107.3	1,059.0	3.6	3.3	2.42	2.06	.35	.66	.78	.36
American Metal Climax	668.5	N.A.	4.9	N.A.	2.15	2.71	67	.71	.63	.70
American Smelting & Refining	390.3	N.A.	3.7	N.A.	1.74	3.72	1.22	1.03	.81	.66
American Standard	517.4	480.2	4.1	2.7	1.80	1.10	.28	.19	.32	.32
American Tobacco	1,161.3	1,215.3	5.4	5.1	4.61	4.56	.98	1.15	1.25	1.19
Armco Steel	1,022.4	937.9	7.5	7.5	5.21	4.76	1.62	1.20	.79	1.15
Atlantic Refining	541.2	561.2	5.5	8.2	3.19	5.00	.93	.87	1.12	2.08
Babcock & Wilcox	332.0	311.0	4.8	5.7	2.57	2.88	.80	.69	.66	.73
Bristol-Myers	131.5	N.A.	6.7	N.A.	1.70	2.05	.55	.47	.54	.50
Budd Co.	321.7	350.0	3.4	1.3	2.41	.96	.63	.80	d.26	d.21
Cincinnati Milling Machine	106.3	123.5	2.0	2.3	1.11	1.51	.20[1]	.29[1]	.47[2]	.55[1]
Container Corp. of America	322.2	327.2	6.0	5.2	1.83	1.57	.43	.49	.39	.26
Continental Can	1,146.5	1,116.9	3.5	2.4	3.20	2.21	.30	.75	.84	.32
Continental Oil	685.7	N.A.	8.7	N.A.	2.85	2.90	.72	.63	.80	.75
Corning Glass Works	204.8	214.8	11.8	10.2	3.57	3.23	.87[1]	.94[1]	.77[2]	.65[1]
Crown Zellerbach	527.2	553.7	7.4	7.2	2.76	2.81	.64	.78	.73	.66
Electric Storage Battery	144.5	148.1	4.2	4.0	3.62	3.58	.81	.75	.81	1.21
Ford Motor	5,356.8	5,237.8	8.4	8.1	8.24	7.80	2.61	2.22	.94	1.32
General Electric	4,349.5	4,197.5	6.4	4.7	3.19	2.26	.60	.66	.65	.35
General Tire & Rubber	676.9	753.9	3.9	3.0	4.84	4.07	1.16	.85	.89	1 17
Gillette	209.2	N.A.	14.8	N.A.	3.34	3.98	.90	.94	1.01	1.12
Granite City Steel	164.3	137.3	9.8	8.1	3.76	2.59	1.01	.77	.42	.39
Gulf Oil	2,713.0	N.A.	10.6	N.A.	2.82	3.20	.82	.74	.82	82
Hercules Powder	283.6	336.9	8.2	8.0	2.73	3.05	.61	.85	.85	.74
Ideal Cement	122.6	110.5	14.4	12.4	1.58	1.22	.23	.51	.26	.22
Johns-Manville	377.5	365.1	8.3	7.2	3.74	3.12	.55	1.04	.90	.63
Johnson & Johnson	297.7	302.0	5.1	5.1	2.61	2.63	.71	.63	.85	.44
Koppers Co.	242.9	303.7	2.4	2.4	2.28	3.06	.71	1.00	.88	.47
Minneapolis Honeywell Reg.	381.4	426.3	7.4	6.1	4.20	3.74	.88	.83	.91	1.12
National Biscuit	428.9	451.8	5.7	6.1	3.57	4.10	.99	1.01	.95	1.15
National Steel	736.9	697.0	7.4	6.0	7.28	5.53	2.35	1.27	1.06	.86
Ohio Oil	344.8	N.A.	11.7	N.A.	2.76	2.84	.74	.54	.70	.86
Owens-Illinois Glass	522.6	561.0	7.3	5.9	5.20	4.10	.96	1.28	1.08	.78
Parke, Davis & Co.	191.5	200.0	16.1	15.2	2.09	2.05	.64	.38	.50	.53
Phelps Dodge	285.5	N.A.	11.6	N.A.	3.41	3.68	.48	1.29	.88	1.08
Philip Morris, Inc.	498.4	506.4	3.9	4.1	5.08	5.44	1.15	1.47	1.48	1.35
Pittsburgh Plate Glass	606.9	627.9	7.2	7.5	4.27	4.62	1.20	1.34	1.22	.85
Rohm & Haas	215.9	218.2	10.7	9.7	20.15	18.47	5.22	5.64	4.15	3.46
Socony-Mobil Oil	3,092.9	N.A.	5.3	N.A.	3.38	3.76	.97	.75	1.08	.96
Standard Brands	521.7	526.5	3.0	3.3	2.30	2.56	.64	.59	.62	.71
Standard Oil of Indiana	1,980.7	2,038.0	7.0	7.1	3.90	4.05	.88	.93	1.06	1.18
Stauffer Chemical	228.0	219.8	9.7	9.0	2.37	2.11	.55	.63	.53	.40
Sun Oil	746.2	755.4	5.7	6.5	3.48	3.78	72	.91	1.20	.95
Texaco	2,678.0	N.A.	13.2	N.A.	5.85	6.34	1.61	1.32	1.68	1 73
Union Carbide	1,531.3	1,548.1	11.2	10.2	5.70	5.25	1.40	1.30	1.20	1.35
Union Oil of Calif.	507.6	532.0	5.4	6.4	3.16	3.95	.65	.92	1.21	1.17
U. S. Rubber	976.7	966.8	3.6	3.1	5.30	4.45	1.51	1.26	.99	.69

N.A.—Not available.
d—Deficit.

[1]—12 weeks.
[2]—16 weeks.

protected here. What is particularly disappointing is that both of these companies had already suffered in 1959, largely by the necessity of buying premium plates during the steel strike, and some recovery last year had been generally expected. While the can market is tied in closely with the sales of food, firmer prices as well as volume shipments are essential to financial health.

In a different branch of the same industry, **Container Corp.**, the principal manufacturer of paperboard products, did somewhat better, with sales up about 2% to $327 million. A heavier expense ratio still shaved earnings to $1.57 a share, but hardly jeopardized the long-established $1. dividend. **Owens-Illinois,** in the glass bottle field, enjoyed a still sharper sales gain, but here again heavier expenses intervened to cut net to $4.10 a share from $5.20 a year ago. A $3.7 million loss on the expropriated Cuban plant was charged against surplus and did not directly affect last year's stated earnings. Chairman J. P. Lewis spelled out specifically the character of the familiar profits squeeze. Most of the company's containers are still selling, he stated, at or below the 1957 level while wage costs alone have gone up 60 cents an hour since January of that year. While the containers, particularly Container Corp. look fairly attractive at current prices, it is hard to visualize any substantial early improvement in their profits picture.

Foods and Tobaccos Beat the Trend

Two other important consumer industries, the foods and tobaccos, however, successfully resisted the general decline and justified their reputation for immunity from cyclical trends. Or, at least, the four companies whose results are summarized in the accompanying table showed a uniform sales gain, ranging from a substantial 14% for **American Tobacco** to a merely nominal 1% for **Standard Brands.** What is more important, profit margins were well maintained. Standard Brands showing an improvement to 3.3% from 3.0%, **Philip Morris** to 4.1% from 3.9% and **National Biscuit** to 6.1% from 5.7%. This meant healthy earnings gains for each of these companies, and a new profit peak for National Biscuit, unless as a result of recession, prices come down.

Curiously, **American Tobacco,** with the broadest sales advance, was the only one of the four which **failed to lift net income. It was, however, a very close comparison, and only a year-end charge-off of $797,000 for the possible loss of cigar tobacco warehoused in Cuba depressed earnings 5¢ per share below last year's $4.61.**

Both food and tobacco companies enjoy a favorable outlook in the year ahead. Although competition may even be accentuated it should continue to be expressed primarily in terms of real or imagined brand attributes rather than on a price basis. The defensive qualities of these stocks have, however, been widely recognized and they are no longer cheap.

Reduced Housing Starts Reflected in Building Companies Results

As housing starts in 1960 dropped some 300,000 units below the peak level of 1.57 million established in 1959, it should be no surprise to learn that sales of conventional building companies declined substantially. **American Radiator,** always particularly sensitive to fluctuations in residential building, suffered a 7% drop in sales to $480 million and its already low profit margin dropped to 2.7%, cutting net per share to $1.10 from $1.80 in 1959. **Johns-Manville** was less vulnerable to the general sales decline and also maintained better control of expenses, but even here net per share fell to $3.12 from $3.74 a year ago. No excception to the rule, **Ideal Cement** also witnessed a 10% set-back in sales which was responsible for a reduction in net earnings per share from $1.58 to $1.22. Besides the decline in shipments the cement industry suffered last year from the adverse court decision on percentage depletion, which has now been embodied in legislation.

Strictly on a year-to-year basis **Pittsburgh Plate Glass** did look better, with sales up 3½% to $628 million and earnings advancing to $4.62 from $4.27 in 1959, but a broader perspective is required here. The company suffered an extended strike in 1959, from which some come-back was almost assured. Actually, Pittsburgh is in the process of recovery from an individual recession reflecting the loss of much of its former automotive glass business. Although last year's sales did set a new record by a narrow margin, earnings are still lagging well below the 1955-57 level.

Only **Minneapolis-Honeywell,** of the companies usually classified in the building group, managed to show an advance in sales last year, and this really reflected the growth of its electronic data processing equipment, which has overtaken its household heating controls in importance. Even here heavy expenses, arising chiefly from large-scale research, cut net per share to $3.74 from $4.20 in 1959.

It is certain that the new administration will do everything possible to stimulate building, which is regarded as one of the mainstays of the general economy. Highway construction should return to the 1959 level this year and other public works are likely to more than recover the very minor set-back they experienced last year. Private construction, which usually accounts for about two thirds of all building activity, is, however, more difficult to manipulate. The government hopes that the easier money will stimulate building, but relative saturation of demand is a restraining factor and housing starts are not likely to improve more than slightly this year.

With material prices sticking at a relatively depressed level, the industry cannot be regarded as particularly attractive. A price-fixing investigation, which might reproduce some of the disagreeable consequences currently being witnessed among the electrical equipment manufacturers, has also been threatened for the cement industry.

Contrast in Drug Results

Results in the drug industry were mixed, but a few companies did manage to turn in very pleasant reading for stockholders. **Bristol & Myers,** for example, enjoyed a sharp earnings advance to $2.05 a share from $1.70 in 1959; the latter figure already represented a substantial improvement over all previous years. This success has been shared with the stockholders in a tangible way, as the dividend has been raised consecutively in each of the last five years. The sharp upward trend in the

price of the stock during the past two years has, however, lifted the price/earnings multiple to a high 35 times, so that current purchase can be justified only by the expectation of further substantial gains in the early future. Despite the success that has already been achieved this hope may be excessively optimistic. Only slightly less generously valued is **Norwich Pharmacal** (not shown in table), which boosted sales 11% to $45 million in 1960 and lifted net per share from $1.35 to $1.55, likewise extending further a previously established sharp upward trend in earnings.

More typical results were reported by two members of the industry's ethical branch, **Parke Davis** & high-priced **Rohm & Haas,** each of which accomplished only nominal sales gains accompanied by narrow earnings reductions. **Johnson & Johnson,** which was able to push its net up a mere 2¢ a share in the year just ended was really in the same class.

Antibiotic price reductions in addition to the nearly universal increase in operating costs turned a 2½% sales gain on the part of **Abbott Laboratories** into a 5% set-back in net per share, from $3.32 to $3.16. Like many other companies Abbot made much greater progress in its foreign operations last year than in the domestic sphere. Consequently, the bulk of the company's capital spending, estimated as in the vicinity of $10 million, will be carried out abroad.

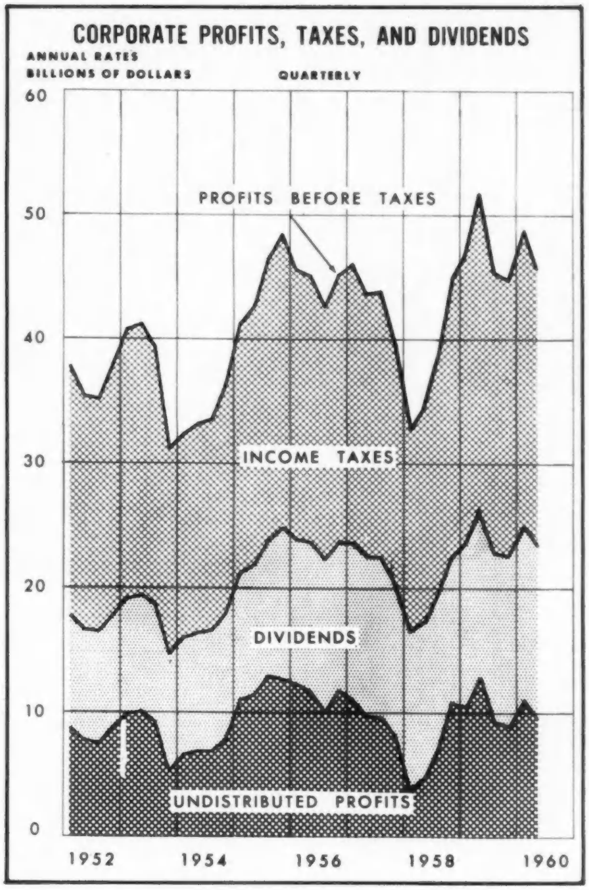
In the proprietary field, **Colgate's** foreign sales also exceeded those from domestic operations, but heavy investments charged as current expenses did restrict foreign earnings, and the company's overall net fell 19% to $2.53 from $3.11. Among other factors Colgate was hurt by the loss of its former Cuban business (its $5.3 million investment being written off last year), **Procter & Gamble's** sudden success with Crest toothpaste and unusual expenses arising from several acquisitions. Despite these problems the rapidly expanding foreign market offers attractive opportunities for the future.

The exciting performance of **Mead Johnson** (expected to report about $10 a share for 1960 vs. $3.02 for the preceding year) as the pioneer entrant in the liquid diet field is an example of the sudden prosperity that can always burst forth in the drug field, but the results of the other companies cited show that such spectacular success is not an every-day occurrence.

How Can Rising Costs Be Offset?

When interim results are announced, either rejoicing or mourning is brief, and the attention of investors rapidly shifts to the next period ahead. Full-year results, however, require more thorough analysis, and all the information will not be available until the appearance of the annual corporate reports. Then, the problems which most companies encountered during 1960 will be detailed more specifically. Still, it is not likely that much of importance will be added to the facts already known. Industry generally has been operating for a number of years under a constantly rising expense trend, which requires continually expanding sales volume, the recurrent introduction of improved techniques, or both, in order even to maintain profit margins.

Last year, the sales growth which has been taken



for granted failed to materialize. And much evidence suggests that it will no longer expand as rapidly in the future as in the abnormal postwar decade and a half.

Individual companies will meet this problem differently, and it is impossible to generalize as to their programs. But it is clear that all of them will put great emphasis upon cost-control measures—so that the present adversity may be expected to have healthy consequences in the long run.

This optimistic viewpoint may not, however, be particularly encouraging to investors, whose outlook is usually focused upon the more immediate future. Such investors will watch carefully the President's measures to stimulate business. The recent strong recovery in the market says plainly that many stockbuyers do expect these measures to be effective. Just the same, many of them are conflicting; new plant construction cannot be encouraged, for example, by pushing up the minimum wage or hinting at price controls. The reduction of the rate on government approved mortgages by ¼ of 1% means a saving of only $25 a year to the home buyer accepting $10,000 initial financing, only a drop in the bucket compared with all the the new taxes likely to be levied against him. Considerable skepticism is justified as to whether these measures will result in an early recovery on the part of corporate profits.

END

A New Feature

A FIRST HAND REPORT ON TRENDS IN 1961 DEFENSE EXPENDITURES

—And who will get the orders

By JEROME ELSWIT

THE aircraft industry will get its next shot in the arm from the Pentagon early this Spring, when the first development contract will be awarded for the long-range jet transport plane. **This will be a particularly valuable prize, since the aircraft is to be designed for immediate use by commercial carriers as well, and could open a new era in commercial air freight.**

Douglas Aircraft Co. is considered to be the front runner in the four-way competition, not on technical grounds, but because there is agreement in many quarters that such a contract is needed to retain Douglas as an effective defense producer. There is $30 million earmarked for work on the jet transport this year, with $90 million more in the fiscal 1962 budget submitted by Eisenhower. **Boeing, Lockheed,** and **Convair** are the other contenders, with either **General Electric** or **Pratt & Whitney** expected to supply the turbofan engines.

The Kennedy Administration endorses the program but is more immediately concerned with a buildup in troop airlift "right now." It is significant that the first planned additions to the Eisenhower budge are for airlift—$172 million in new spending authority to buy **Boeing** jets and **Lockheed** turboprops.

It is also significant that the Boeing plane, the C-135, is to be obtained for quick delivery by diverting airframes from production of the KC-135 tanker, which is in urgent demand for support of the B-52 bomber.

This marks the first time in recent years that the needs of strategic retaliatory or big-war forces have had to take a back seat for limited-war requirements. This serves to underline the high priority being given to "small-war" requirements by the new Administration, which may be reflected soon in increased funding for the Army's modernization program next year.

The Administration is moving cautiously in the defense spending field, waiting for "reappraisals" rather than rushing ahead with the stepped-up spending plans indicated during the election campaign.

The re-emphasis on limited-war requirements was initiated in the Eisenhower 1962 budget, which

President Eisenhower's Budgets For Military Procurement, Research and Development — Fiscal Years 1960-1962 —

1961 and 1962 estimates are subject to change by the New Administration

	New Authorizations			Budget Expenditures		1962 estimate	
	1960 enacted	1961* enacted	1962 estimate	1960 actual	1961 estimate	Total	From new authorizations
PROCUREMENT							
CURRENT AUTHORIZATIONS:							
Procurement of equipment and missiles, Army	1,407,300	1,495,352	1,803,000[1]	1,604,886	1,410,000	1,643,000	395,000
Procurement of aircraft and missiles, Navy	....	2,141,760	2,000,000[1]	....	240,000	1,070,000	300,000
Shipbuilding and conversion, Navy	1,330,700	2,245,590	1,825,000[1]	1,362,953	1,770,000	1,775,000	145,000
Other procurement, Navy	....	424,480	625,000	....	72,000	346,000	150,000
Procurement, Marine Corps	133,850	91,180	140,000[1]	139,496	155,000	161,000	14,000
Aircraft procurement, Air Force	4,284,600	3,251,449	3,040,000[1]	560,283	2,780,000	3,761,000	877,400
Airlift modernization, Air Force	....	310,788	157,000[1]	....	30,000	156,000	59,200
Missile procurement, Air Force	2,465,550	2,615,120	2,811,000[1]	1,149,745	2,340,000	2,860,000	1,540,000
Other procurement, Air Force	1,109,650	877,171	977,000	175,616	615,000	866,000	158,000
Aircraft and related procurement, Navy	1,961,644	....	....	2,027,098	1,760,000	1,760,000	....
Proc. of ordnance and ammunition, Navy	583,219	....	....	290,342	430,000	150,000	....
Aircraft, missiles, and related procur. (Air Force)	....	....	....	5,317,841	1,725,000	350,000	....
Procur. other than aircraft and missiles (Air Force)	....	....	....	1,559,232	640,000	215,000	....
Adjustment to reflect comparability with current budget structure	—171,418	....	....	124,742	—213,818	—51,311	....
Total, procurement	13,105,095	13,452,890	13,378,000	14,312,234	13,753,182	14,371,689	3,638,600
RESEARCH and DEVELOPMENT							
CURRENT AUTHORIZATIONS:							
Research, develop., test, and evaluation, Army	1,074,128	1,083,286	1,130,400	705,079	939,000	1,071,000	[illegible]14,000
Research, develop., test, and evaluation, Navy	1,066,524	1,299,419	1,267,000	766,532	1,120,000	1,249,000	645,000
Research, devel., test, and evaluation, Air Force	1,448,850	1,559,113	1,637,000	1,089,295	1,391,000	1,618,000	805,000
Salaries and expenses, Advanced Research Projects Agency, Department of Defense	329,620	166,000	165,000	313,674	290,000	204,000	57,000
Emergency fund, Department of Defense	5,288	140,725	150,000	....	39,334	150,000	80,000
Adjustment to reflect comparability with current budget structure	291,492	....	....	857,034	368,339	96,225	....
Total, research, devel., test, and evaluation	4,215,902,	4,248,543	4,349,400	3,731,614	4,147,673	4,388,225	2,101,000

[1]—To carry out authorizing legislation to be proposed. *—Estimated.

boosted Army procurement funding by $200 million over the current year and requested over $300 million in "new money," compared with actual decreases for the Navy and Air Force. But the increase in funding, to $1.8 billion, still falls short of the $2.5 billion the Army thinks it should have for an adequate modernization program. Among the beneficiaries of the Eisenhower increase and of any additions by Kennedy will be

Chrysler Corp. for the M60 tank; **Food Machinery & Chemical,** the M113 personnel carrier; **General Motors** and **International Harvester,** heavy vehicles; **Remington** and **Olin Mathieson,** the new 7.62 rifle; and Army missile contractors such as **Martin** (Pershing), **Sperry Rand** (Sergeant), **Raytheon** (Hawk), and **Convair** (Redeye). In the special vehicle category, **Borg-Warner's** Larc-15 amphibian is a good prospect for production funding. In heavy ordnance, **Pacific Car & Foundry;** for air mobility, **Grumman, Bell, Boeing's** Vertol Division, and the **Canadian De Havilland Co.**

Just Released February 1961

The Twelve Largest Defense Contractors Listed According To Dollar Value Of Orders

—And Rank Changes—fiscal 1958 through 1960

Company	Fiscal Year 1960 (Millions)	Rank: FY 1960	1959	1958
U.S. Total	$20,995.0			
General Dynamics	1,260.2	1.	1.	2.
Lockheed	1,070.8	2.	5.	4.
Boeing	1,008.7	3.	2.	1.
General Electric	963.1	4.	4.	3.
North American Av.	907.7	5.	3.	7.
Martin Co.	596.7	6.	8.	10.
United Aircraft Corp.	517.4	7.	7.	5.
American Tel. & Tel.	466.8	8.	10.	6.
Radio Corp. of America	405.8	9.	22.	23.
Douglas Aircraft	404.9	10.	6.	8.
Hughes Aircraft	349.1	11.	9.	9.
Raytheon	323.4	12.	13.	22.

Watch for our report on new contracts as positions shift in 1961-62.

The continued controversy over the ambiguous "missile gap" issue is not expected to change Kennedy's determination to accelerate the ballistic missile program. The theory will be to reach an optimum retaliatory force as soon as possible, then concentrate on meeting the limited war threat and on space systems.

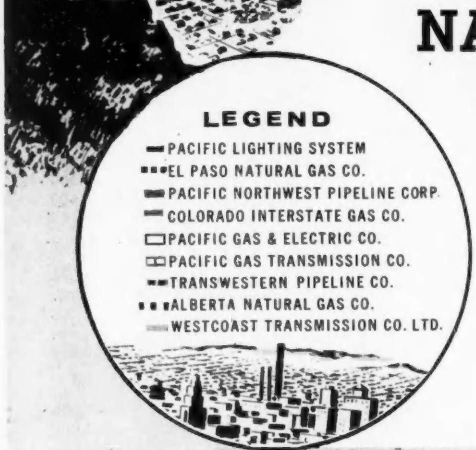
►More money will probably be allocated to **Boeing's** Minuteman ICBM, with special emphasis on speeding operational date of the mobile railroad version.

►The launch car is being developed by **American Machine & Foundry** and **ACF Industries.**

►**Lockheer's** Polaris will be stepped up to meet the needs of the accelerated submarine program.

►Construction of bases for the **Atlas** (Convair) and **Titan** (Martin) will be hastened, but there is a possibility that the planned numbers of early, harder-to-handle versions may be reduced to release funds for other systems. The new defense team will wield the axe ruthlessly where necessary for this purpose. The Pentagon is not being given a blank check by any means. END

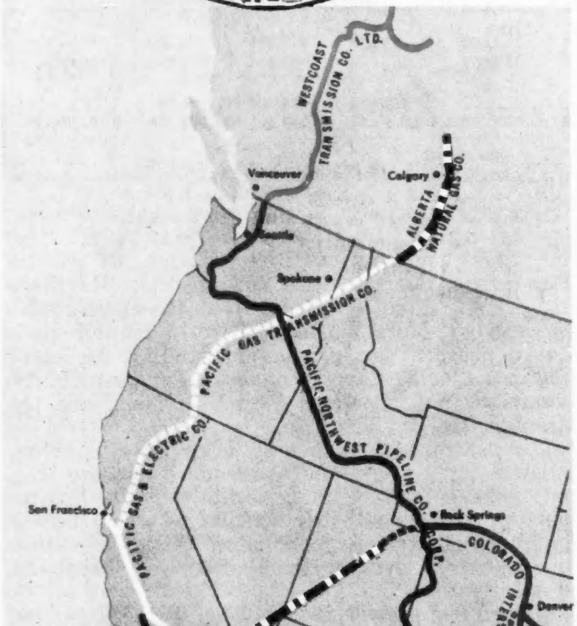
NATURAL GAS STRUGGLE ON THE WEST COAST



— And the companies involved

By JOHN PINTARD

- **Changes that are taking place in the fortunes of the individual companies . . . the specific case of El Paso Natural Gas — where it stands — and the outlook**
- **A rationalization of the situation that answers inquiries from numerous subscribers.**



IN the brief decade and a half since World War II a giant new industry — natural gas — has sprung into being. As principal supplies of this fuel unfortunately are not found near major consuming centers, great pipe line systems have been flung across the continent to connect the gas fields with populous areas constantly clamoring for additional capacity. Although the pipe lines are regulated as public utilities plenty of competition for some of the most rapidly growing markets persists, and the rivalry among companies is sometimes only slightly more restrained than the struggles between conflicting railroad systems three quarters of a century ago.

Struggle For The California Market

A particularly intense struggle, and one that may also have far-reaching repercussions affecting future projects, is now going on for penetration of the rich California market. This west coast state, already rivaling New York for first place in population count, is expected to grow another 50% in the next decade alone. Not only have numerous important industries relocated in the balmy climate of southern California, but the population explosion alone promises the greatest increase in the most attractive residential segment of the market. Quite aside from the growth of the market, the relatively stable weather, if it does not cause peak heating demands, produces an unusually steady load factor. In the Los Angeles area too, the smog problem creates a particular incentive for the substitution of gas for both fuel oil and coal.

Heretofore, **El Paso Natural Gas** has been the sole interstate supplier in both the northern and southern West Coast markets. Its two major customers in California have been the distributing utilities, **Pacific Gas & Electric** and **Pacific Lighting**. **But El Paso's near-monopoly of this rapidly expanding market has recently been disturbed. To sup-**

7 Companies Involved In Natural Gas Controversy

	Total Operating Revenue 1959 (Millions)	Total Operating Revenue 1960 (Millions)	Net Earnings Per Share 1959	Net Earnings Per Share 1960	Price-Earnings Ratio 1960	Price Range 1960-61	Percentage Div. Pay-out 1960 **	Recent Price	Indic. 1961 Div. *	Div. Yield
PIPE LINES										
Colorado Interstate Gas	$62.3	$64.0[1]	$1.71	$1.87[1]	23.5	44¼-31⅝	66%	44	$1.25	2.8%
El Paso Natural Gas	452.0	388.0[2]	1.32	1.92[3]	14.5	35⅛-24⅞	67	28	1.30	4.6
Tennessee Gas Transmission	462.9	554.7	1.14	1.35	17.7	25⅛-20¼	82	24	1.12	4.6
Transwestern Pipeline Co.	—	—[4]	—	—[4]	—	14⅝-10¼	—	14	—	—
RETAIL DISTRIBUTORS										
Pacific Gas & Electric	583.4	632.7[1]	3.70	4.07[1]	19.6	82½-60	63	80	2.60	3.2
Pacific Lighting	306.6	364.4	2.64	3.43	16.3	56½-46⅝	69	55	2.40	4.3
Southern California Edison	280.1	298.9[1]	3.82	4.31[1]	16.4	73¼-56⅛	60	71	2.60[5]	3.6

*—Based on latest dividend reports.
**—Based on estimated 1961 dividend.
1—12 months ended Sept. 30.
2—9 months ended Sept. 30.
3—Includes $.46 share in tax-loss carry-forward.
4—Operations started on August, 1960.
5—Plus stock.

plement its present supplies, 70% from El Paso and the balance from local wells, PG&E is currently engaged in an ambitious project to import gas from interior Canada.

A company subsidiary, **Alberta & Southern Gas,** has contractetd for the purchase of fuel from producers and for its transportation to the British Columbia border by Alberta Gas Trunkline, an independent company which is expected to make a $300 million investment in its initial facilities. This line will be continued across British Columbia by the Alberta Natural Gas Company, one-third owned by Pacific Gas Transmission, a PG&E affilliate, one third by West Coast Transmission, 10% owned by El Paso, and the final third held by the Canadian public.

Pacific Gas Transmission will in turn transport the gas from the Canadian boundary to its parent in the San Francisco area. The whole project is scheduled for completion late in 1961 and will initially deliver 415 million cubic feet a day, 20% above present supplies. The California Public Utilities Commission has estimated the cost of this Canadian gas in its first year at 45.5¢ per mcf vs. 39.5¢ now being charged by El Paso, but it is expected that deliveries will come close to being doubled within five years resulting in savings which, together with other economies will bring the price down.

An Attack On The South Flank

As if this invasion of its territory from the subarctic north were not enough, El Paso is being assaulted simultaneously from the tropical southern front.

El Paso's important customer, Pacific Lighting, has for some years been supplying **Southern California Edison** on an interruptible basis with gas for boiler fuel use in generating electricity. Southern Cal. has naturally been looking for a more reliable source, and has consequently recently collaborated with **Tennessee Gas Transmission** in a project for the construction of an entirely new $225 million, 1600-mile pipe line from lower Texas to southern California via Mexico. **Tennessee,** one of the most aggressive gas pipe lines, operates chiefly between Texas points and the Northwest, although several years ago it invaded the Upper Northwest territory of **Northern Natural Gas** and **Peoples Gas Light & Coke.** The present plan would comprise its first westward venture.

The fuel to be delivered in this line would originate principally from Humble Oil, Standard of New Jersey's chief domestic subsidiary, which has contracted to sell Southern Cal. up to 265 million cu. ft. of Texas gas a day. An additional 75 million cu. ft. would be contributed in Mexico by Petroleos Mexicanos, the government gas-producing agency. Ultimate capacity of the proposed pipe line is scheduled at 750 million cu. ft. a day, of which Southern California Edison would take about two-thirds.

This ambitious project, naturally opposed by El Paso and Pacific Lighting, is now being considered by the Federal Power Commission. **Although Southern Cal.'s application is supported by Los Angeles civic interests as a smog-reducing measure, a recent ruling by the FPC denying Tennessee's application to supply Consolidated Edison in New York City creates an unfavorable precedent for the present application.**

El Paso's Defense

El Paso's resistance to the proposed project may sound purely selfish, but the company can offer some strong arguments to support its position. **Broadly, it opposes the Southern Cal.-Tennessee project on the grounds that it would tend to create a gas scarcity and prompt a rise in consumer prices.**

At present, El Paso delivers gas to the California market at the lowest price prevailing in any major market area in the United States. This is made possible both by its large controlled supplies, and by the heavy market for the fuel in California. The division of this market among several suppliers, and particularly the creation of a large new boiler fuel demand in competition with the existing residential usage, is likely to cause the present favorable price structure to deteriorate.

The Consolidated Edison decision referred to was rendered primarily on this basis: the FPC described the fueling of boilers as an "inferior use" of natural gas, particularly when abundant supplies of other fuels are available. Thus, the principle of conservation also enters into this issue. The Edison ruling, now upheld by the Supreme Court, seems to augur the doom of Tennessee's Mexican project and the retention of Southern Cal. as a major customer by El Paso and Pacific Lighting.

Regulation — Friend Or Foe?

While El Paso and Pacific Lighting would be delighted by such an outcome, Tennessee is naturally disgruntled by this recent turn of events. In fact, Chairman Symonds of the latter company has attributed the slow-down in pipe line construction (at a time when so many consumers are impatiently awaiting gas connections) to "the delaying, unrealistic policies of the FPC staff." He visualizes no reversal in this trend until the FPC "faces up to reality and its decisions begin to mesh with facts and present-day economics."

The FPC is also receiving criticism from pipe line operators for its growing tendency to insist that the rate of return be based purely on all of a company's equities, outside of borrowed capital. This approach could seriously affect the investor's position in high-debt pipe lines, as it both increases the risks and reduces the rewards of a high leverage position. If carried to an extreme it could impede the progress of pipe line expansion and the satisfaction of the hungry consuming markets. According to a reassuring recent FPC pronouncement, however, the Commission will avoid carrying this equity basis philosophy to a harmful extreme.

Another difficult regulatory issue arises over wellhead pricing. Many of the pipe line companies mentioned in this article, and others, have oil and gas-producing subsidiaries which represent a growing, although still minor, part of their total business. These are in competition with non-regulated producers. Thus, the need seems clear, if the incentive to drill for and develop ample reserves is to be provided, to allow fair wellhead prices for regulated as well as non-regulated companies.

► The FPC has, in fact, accumulated such a heavy backlog of rate cases under its former principles that it would take an estimated 90 years to render decisions on all of them. But this bottleneck is likely to be broken, and determination of these cases expedited by a greater emphasis upon the fair field price. This concept rejects the utility rate-of-return method based on a cumbersome investigation of costs, and instead relates prices to that of other neighboring producers.

If this method is ultimately adopted then such companies as **Panhandle Eastern** and **Colorado Interstate,** whose producing subsidiaries possess exceptionally low-cost gas reserves, should benefit materially. **But the area-pricing approach will still have to undergo extensive hearings, questions will be raised about the definition of areas, and the formula itself will probably have to be tested in the courts. Thus, full affirmation of its legality cannot be expected for another two years.**

► While the president of El Paso recently defended the FPC before the New York Society of Security Analysts, and asserted that regulation is a necessity in an industry like natural gas, it must be admitted that the regulatory process is often an obstacle to progress, and sheer economic necessity is likely to rupture it at some point if it does not reform itself.

Back to El Paso

Keeping the regulatory and rate factors in mind, still it is necessary to consider the position of El Paso Natural Gas in order to get a complete picture of the current struggle for domination of the important West Coast natural gas market.

While El Paso will shortly be subjected to direct competition from Canadian gas imported by Pacific D.&E. as well as the threat on the Mexican border, it will certainly not succumb easily to such competition. On the contrary, it has been particularly aggressive in expanding its own connections.

► The company's initial entry into the Pacific North Coast was secured by its merger with **Pacific Northwest Pipe Line,** consummated in 1959. To be sure, Pacific Northwest, a new property, represented an initial earnings drain, which in turn provided a tax-loss carryover that was exhausted only last year. But it should shortly begin to pay off.

► Besides its major northern and southern supply lines El Paso has recently applied for a new route connecting southern California with Colorado Interstate Gas Company, in Wyoming. (Colorado is already connected with El Paso's Northwest Division). As this route does not duplicate any existing line, it is not unreasonable to expect a favorable decision.

► As already stated El Paso does have an indirect interest in part of the Pacific Gas Transmission project, and this line will also transport some of its own Alberta gas to its Northwest Division, under contract. Further, El Paso has, through 19% owned Westcoast Transmission, a connection to newly developed and apparently extensive reserves owned by itself and Western Natural Gas (also 19% controlled) in the far north of British Columbia.

Competition May Have A Silver Lining

To be sure, the gas supply picture on the West Coast has been altered drastically in the last few years, and superficially, at least, not to El Paso's advantage. Besides the PG&E project which is being carried out and the Tennessee Gas plan which looks more dubious at present, another, entirely new pipe line, **Transwestern,** was constructed a few years ago, paralleling El Paso's pioneer line closely the entire distance between western Texas and the California gateway. **But in a curious way this initial rupture of El Paso's apparent monopoly may even have helped the company, as it was probably instrumental in securing FPC approval of the merger with Pacific Northwest (which is still being challenged on anti-trust grounds, however, by the Department of Justice). As El Paso is no longer the only major pipe line serving the Pacific Coast, it has become hard to justify objection to its extension into other areas.**

Outcome Not Yet In Sight

These fascinating developments in the struggle of rival companies to win a greater share of the important West Coast market represent only one episode in a story that is likely to have many further chapters. For, while the demand for natural gas is still far from saturated, all extensive virgin markets in this country have now been reached by pipe line extensions, and from this point onward, new projects will almost invariably invade the territory of some rival.

Undoubtedly, a certain *(Please turn to page 623)*

SURVEY of STOCKS OFFERING TAX ADVANTAGES

— Which are the most desirable

By JAMES A. BUTLER

- ► **Investment role of tax exempt bonds of municipalities — states — governments**
- ► **Position of partially exempt utility stocks — and investment companies with special tax status . . . which growth companies offer indirect tax exemption?**
- ► **What prospects for hotels seeking tax exemption status as real estate trusts? Note trouble ahead for mergers with companies operating at deficits to minimize taxes**
- ► **Listing leading utility — industrial — and holding company stocks with full or partial tax exemption**

TAXES, particularly Federal income taxes, continue to take a substantial portion of the income of those fortunate enough to have much coming in. Nor are there any substantial grounds for hoping that tax rates will reverse their upward trend. On the contrary, the spending plans of the new administration in Washington point in the direction of further tax increases to pay for the additional social benefits and higher outlays for numerous purposes.

Under these circumstances, investors should recognize the desirability of securities with tax exemption features. Just as the wage-earner is more interested in his take-home pay than in gross income, so the security holder should be more deeply concerned with his net income after taxes than with pre-tax interest or dividend returns.

Thus tax-exempt bonds of municipalities, states and other governmental subdivisions have come to play an increasingly important role in the field of investments. For the investor who is in the 80% tax bracket, a 3¼% tax-exempt yield is infinitely better than an 8% taxable yield, since he could keep only 20% or 1.6% net in the latter instance.

Character of Tax Exemption

In the area of equity investments few securities enjoy 100% tax exemption. In fact only partial exemption is available with most of the relatively small total number of stocks possessing this desirable feature. Furthermore, in most cases the term

"exemption" as applied to dividend income may be a misnomer. **The word "deferment" would usually be more clearly descriptive. What happens in most instances is that the dividend is considered for tax purposes to be in part a return of capital. Thus, to this extent the investor is permitted to reduce or write down the tax base or tax cost of the stock. In this manner the tax is deferred, but if the stock should be sold at a later date the capital gain tax rate of 25% would be applied to the difference between the proceeds and the lowered tax cost base.**

Advantages Are Genuine

Even after giving due weight to these elements, however, the advantages of the partially tax-exempt stock for the high tax bracket investor are substantial.

- **In the first place, by deferring the tax he has the continued use of the funds which would have otherwise been paid in taxes.**
- **Secondly, he pays only the 25% capital gains rate when he sells. This is in contrast with a rate up to 80% on taxable income.**
- **And finally, he may never sell, and so may leave a larger estate to his heirs who can then take the stock in at current market values.**

The accompanying table presents a list of stocks possessing tax advantages. This list may not be all-inclusive although it does include a majority of the issues which have some measure of tax exemption.

Outside of the regulated investment companies, which are acccorded special tax treatment to avoid double taxation, the two principal situations in which dividends may be wholly or partially tax-exempt are: (1) those companies (usually public utilities) where, because of accelerated amortization and depreciation charges, the dividends paid are not shown to be fully earned on the books kept for tax purposes, (2) companies holding securities or other disposable assets on their books at values well above current market prices and thereby in a position to sell off enough holdings each year to establish tax losses to offset other income.

Partial Exemption a Feature of Many Utility Stocks

Both of these groups have the weakness or limiting feature that their tax exemption is not fixed, as in the case of tax-exempt bonds, but varies from year to year and may eventually be completely exhausted. For some public utility companies the percentage of income exempted in 1960 was less than it was in 1959. In many instances, however, a substantial portion of income has remained tax exempt year after year for a number of years.

In the cases of the public utility company stocks, the exemptions range from 100% in the cases of California Electric Power and Pacific Power and Light Company down to a very small fraction in the cases of Utah Power & Light and certain others. The stocks of Central Maine Power Company and El Paso Natural Gas Company which enjoyed exemptions of 41.15% and 80% respectively in 1959 carried no exemptions in 1960.

In the recent stock market the public utility segment has constituted an element of particular strength. While this evidence, of enlarged investor following may have been largely due to the steady growth in earnings and dividends of many public utility companies, it may also be attributable in part to the favorable tax status of a substantial number of public utility stocks.

Investment Companies with Special Tax Status

The number of investment companies, whose dividends are subject only to capital gains taxes or where some degree of tax exemption applies, is large. In most instances, the only tax feature of the stocks of these companies is the designation of a portion of the dividend as representative of the capital gains taken by the fund. **Two former public utility holding companies, Electric Bond & Share and United Corporation, are, however, of special interest. The dividends of both of these companies for some time have been 100% tax free. Their special exemption arises because both of these former public utility holding companies continue to carry securities of one-time affiliates on their books at values well in excess of current market. They can thus continue to establish and carry forward losses sufficient to offset entirely their regular income from other investments.**

A somewhat similar situation is presented by liquidating companies such as the **Kratter Corporation.** This company, which has been in the news recently as a large purchaser of Ruppert Brewery stock, has been successful in obtaining control of companies with large assets but which are operating at deficits. The sale of a portion of these assets establishes tax losses which can then be used to offset current income. In addition, depreciation accruals for this type of company are large and dividend payments may therefore be considered as a return of capital. Thus, both the preferred stock and the Class A and Class B stock of the Kratter Corporation are listed as 100% tax-exempt. (The Treasury has indicated recently that steps are going to be taken to prevent mergers made for the sole purpose of tax advantages—with the possibility of retroactive review of previous mergers. This is therefore, a matter for consideration at this time.)

Can Hotels Qualify As Real Estate Trusts?

Many hotel companies hope to attain the same degree of tax exemption enjoyed by the investment companies. This, however, will be contingent upon confirmation in the courts of a recent tax ruling which would qualify hotel companies as real estate investment trusts having over 100 stockholders and paying out 90% or more of earnings in dividends. **The Shelton Corporation** is making itself the guinea pig in the attempt to win this tax advantage for hotel companies. Whether or not it will win, or what the odds for a favorable decision are just now, cannot be determined. The declared attitude of the Kennedy Administration in closing up "tax loopholes" and the need for more federal tax money may militate against any broadening of tax exemptions whether by means of interpretations, new statutes or otherwise.

Growth Stocks Offer Indirect Tax Exemption

Aside from the methods of achieving tax deferment, just described, purchasers of stock may reduce the federal tax rates on their equity gains by other less direct ways. **Chief among these is the concentration on growth stocks which reinvest most of their earnings and pay out little or nothing by way**

Tax-Free and Capital Gains Dividends In 1960

	Earnings Per Share		Percentage of Dividends "Tax-Free"		1960 Payments Per Share					
	1959	1960	1959	1960	Total Paid	From Income	Non-Taxable	Indicated 1961 Div. *	Recent Price	Div. Yield
Arizona Public Service	$1.92	$2.01[1]	53%	20%	$1.20	$ .96	$ .24	$1.20	54	2.2%
Atlantic City Electric	1.39	1.57[2]	71	63	1.10	.40	.70	1.20	40	3.0
California Electric Power	1.15	1.04	62	80	.83	.17	.66	.84	19	4.4
Central Hudson Gas & Elec.	1.41	1.46[1]	61	34	.94	.62	.32	1.00	31	3.2
Connecticut Light & Power	1.38	1.47	32	25	1.12	.83	.29	1.20	27	4.4
Crescent Petroleum	1.20	.91[3]	—	100	.75	—	.75	.75	20	3.7
Detroit Edison	2.34	2.68	36	25	2.00	1.51	.49	2.20	51	4.3
Electric Bond & Share	1.43	1.20	100	100	1.20	—	1.20	1.20	28	4.2
Equitable Gas	2.54	2.38[1]	N.A.	30	1.82	1.46	.37	1.85	38	4.8
General Precision Equipment	2.63	3.46	100	100	1.00	—	1.00	1.00	61	1.6
Great Northern Iron Ore	1.17	.98[4]	24	12	2.25	1.98	.27	2.25	22	10.2
Hartford Electric Light	3.65	3.67	60	22	3.00	1.20	1.80	3.00	67	[illegible].4
Idaho Power Co.	2.32	2.58	53	45	1.75	.96	.79	1.80	57	3.1
Kratter Corp. "A"	—	.16	100	100	1.22	—	1.22	1.44	18	8.0
Niagara Mohawk Power	2.07	2.24	67	60	1.80	.72	1.08	1.80	43	4.1
Oklahoma Gas & Elec.	1.46	1.47	30	35	1.12	.73	.39	1.20	37	3.2
Pacific Coast Co.	d.56	4.22[3]	—	100	1.00	—	1.00	1.00	16	6.2
Pacific Power & Light	1.90	2.32[2]	100	100	1.60	—	1.60	1.80	44	4.0
Philadelphia & Reading Corp.	3.07	1.80[3]	100	100	1.00	—	1.00	1.00[5]	38	2.6
Public Service Co. of Indiana	2.73[2]	2.58[2]	53	50	2.10	1.05	1.05	2.20	51	4.3
Tennessee Gas Transmission	1.14	1.35	50	30	1.26[6]	.88	.38	1.12	24	4.6
Union Electric Co.	1.84	2.18[1]	49	49	1.76	.90	.86	1.80	44	4.0
United Corp.	.35	.20	100	100	.35	—	.35	.35	7	5.0
Utah Power & Light	1.85	1.86	19	23	1.32	1.02	.30	1.32	37	3.5
Washington Water Power	2.66	2.41	50	67	2.00	.67	1.33	2.00	48	4.1

d—Deficit. N.A.—Not availablel. [1]—12 months Sept. 30. [2]—12 months Nov. 30. [3]—9 months Sept. 30. [4]—6 months. [5]—Plus stock. [6]—Plus 50% stock.

of cash dividends.

Thus such stocks as **International Business Machines, Minnesota Mining and Manufacturing, Connecticut General Life Insurance Company, Valley National Bank of Phoenix, Franklin Life Insurance Company** or **Corning Glass Company** offer relatively little in the form of immediate cash dividend yield, and the resultant larger capital gains, taxed at a maximum of 25% instead of at each investor's highest bracket, results in a definite saving of taxes.

The stock market in recent years has shown recognition of this factor by making the low yielding stocks popular favorites. There has also been a growing vogue for stock dividends in lieu of higher cash dividend rates, on the part of many diverse types of companies, including industrials, public utilities, banks and insurance organizations. The trend toward stock dividends has been particularly noticeable among banks during the last several years; practically all the major New York City banks have declared stock dividends recently. **The tax advantage of the stock dividend lies in its reduction of the tax base cost with no addition to current taxable income to the shareholder. As tax rates move higher, the trend toward stock dividends by all types of companies is likely to accelerate.**

Need for Realistic Revision of Tax Structure

Appraisal of the effect of the capital gains tax on the action of the stock market is extremely difficult. **However, the subject has been widely discussed, and there seems to be general agreement that the stock market is significantly affected by the six-month holding period required to establish long-term capital gains. Stated in another way, the market is influenced by the impact of the high progressive income tax rates on short-term gains. This dampening of selling pressure, which naturally tends to push market prices upward, exists even with respect to long-term gains, where many investors are also reluctant to sell and pay the 25% tax.**

► Our entire federal income tax structure is admittedly a crazy-quilt patchwork greatly in need of streamlining and revision. **Elimination or modification of the capital gains provisons of the Revenue Act has often been suggested as one important constructive step which would make for freer and sounder markets. The question of double taxation of dividends also remains unsolved.**

The owner of stock in a company, in effect a partner in a joint undertaking, must bear the burden of a 52% corporate tax on overall earnings plus an additional tax at his effective individual rate on whatever dividends he receives. **Under the Revenue Act of 1954 some recognition was given for the first time to the unfairness of this system by provision of a $50 individual exemption, together with 4% credit on dividend income, only a first small step forward.**

Its enactment had a salutary effect on investor sentiment, not so much because of the amount of relief as for the better understanding which it evinced. But even this token benefit has been under attack from some sources, and it may prove difficult to retain it in the face of the current campaign to plug "loopholes."

Until Tax Reform Occurs . . .

Until the tax structure is reformed and inequities wiped out investors must seek such protection from unreasonable levies as they can find. For many investors, particularly the very wealthy, this will mean tax-exempt bonds. But a substantial number of stocks affording varying degrees of tax exemption or deferment can also be found. These deserve close consideration by investors in higher tax brackets who nevertheless want to protect purchasing power and participate in growth opportunities. END

FOR PROFIT AND INCOME

Inside The Market

At this writing, the stock groups performing better than the general market are principally air transport, beverages (soft drinks, beer and liquor), chemicals, electronics, confectionery, fertilizer issues, baking, meat packing, food brands, food stores, machinery, metal fabricating, motion pictures, paper, publishing, rail equipment, rayon stocks, apparel makers, rail equipment, department stores, mail order companies, cigar stocks, banks, insurance stocks and utilities. Groups lagging at this time include: aluminum, automobiles, auto parts, drugs, electrical equipment and appliances, gold mining, steel, sulphur, and tires.

Strong Stocks

In a soft market, some strong stocks at this time are: Allied Mills, American Distilling, Brooklyn Union Gas, Campbell Soup, Consumers Power, Diamond Alkali, Duquesne Light, General Mills, General Portland Cement, Great A. & P., Heller, Illinois Power, International Tel. & Tel., Interstate Department Stores, Lehigh Portland Cement, Laclede Gas, National Fuel Gas, Newberry, Ohio Edison, Ohio Oil, Oklahoma Gas & Electric, Peabody Coal, Pennsalt, Pepsi-Cola, Pillsbury, Plough, Reynolds Tobacco, Ruberoid, Texas Utilities, Transamerica, Warner Bros. Pictures, Washington Gas Light and Washington Water Power. Note that representation in heavy industry is quite limited.

Soft Stocks

On the basis of comparative chart behavior, here are some stocks which "invite" you to stay out of them at this writing: Dow Chemical, Atlas Corp., Cutler Hammer, Divco-Wayne, Dover Corp., American Motors, Budd Co., Bucyrus-Erie, Parke Davis, Polaroid, Bulova Watch, General Motors, Columbia Broadcasting System, Continental Motors, Copper Range, Electric Auto-Lite, Fenestra, Gabriel, General Electric, Goodyear, Green Shoe, Howard Stores, McQuay-Norris, Montgomery Ward, Packard-Bell, Ryder System, Sheller Mfg., Standard Packaging, Studebaker-Packard, Sunbeam, Tung-Sol Electric, Rohm & Haas, and Westinghouse Electric.

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1960	1959
Heller (Walter E.)	Year Dec. 31	$3.22	$2.74
A C.F. Wrigley Stores	26 weeks Dec. 24	.67	.39
Beckman Instruments	Quar. Dec. 31	.61	.47
Tandy Corp.	6 mos. Dec. 31	.35	.10
Imperial Oil, Ltd.	Year Dec. 31	1.94	1.73
International Minerals & Chem.	Quar. Dec. 31	.89	.46
General Foods Corp.	9 months Dec. 31	1.93	1.77
American Photocopy Equipment	Year Nov. 30	1.72	1.42
Great Atlantic & Pac. Tea	39 weeks Nov. 26	1.88	1.59
Metro-Goldwyn-Mayer	12 weeks Nov. 24	.87	.71

What Now?

Simply on the basis of earnings — without regard to the collusive price fixing, to which several of their officials have pleaded guilty, or to the possible company losses through punitive recovery suits — the unpopular opinion was expressed here in our December 31 issue that General Electric was too high at 76, Westinghouse too high at 52. They are, at this writing, down to roughly 62 for GE and 42½ for WX. We do not have any conviction as to where they might bottom. Both retain considerable basic popularity as "growth" stocks and will invite buying by those who think they are getting long-term bargains. However, we are not unduly impressed by General Electric at a valuation around 27 times estimated 1960 earnings. Regardless of what the recovery suits might cost the company, you have to allow for more competitive pricing on heavy stuff, continuing sharp competition in home appliances and continuing narrow margins on defense business. Going beyond all this, the basic fact is that GE., with sales around $4 billion a year, is now much too big to permit long-term growth at anything like the earlier rate. Similar considerations apply to Westinghouse. After much huffing and puffing under revitalized management, the company has had, on the basis of estimated 1960 net, no profit growth in ten years.

Take Profits

American Hospital Supply was recommended here in May, 1960, at 43½ on the basis of favorable growth prospects in its field, in which the company is the leader. It remains true that net income could well grow at an average rate of 9% to 10% a year — it was slightly under 9% in 1960 — but the company continues to press expansion via acquisitions involving issuance of more stock. The important per-share earnings gains always seem to be in a vague future—following "more efficient integration" of acquired companies. We would rather see less ambition for expansion in the management, more effort to raise net per share. Profit last year was $1.60 a share, up less than 2.6% from 1959's $1.56. The stock recently spurted to a high of 85 and at this writing is at 80, yielding little over 0.8% on an $0.16¼ quarterly dividend rate. At this point, the profit on the original recommendation approximates 80% in about eight months We say take it. The stock is over-priced at 50 times earnings.

I. T. & T.

International Telephone & Telegraph Co. derives roughly 42% of system earnings from foreign manufacturing activity in electronic, communication equipment and related items; 25% from U. S. manufacturing, nearly 26% from telephone and radio operations in a number of countries mainly in the Caribbean and South America, the balance from investments. Manufacturers for defense are important. System earnings now approximate a low 4% or so of total sales and gross revenue of over $800 million a year. Operating net is estimated around $2.00 a share for 1960, against 1959's $1.80 (restated to exclude Cuban telephone service which has been expropriated). Currently at a new high of 49 in a soft market, the stock is priced close to 25 times earnings and yields little over 2% on a $1.00 dividend rate. On the face of it, the issue looks high. However, a good gain in earnings could be had from better control of costs and moderate improvement in the relatively low overall operating margin. Dedicated to that purpose, the company has a revitalized management headed by President H. S. Geneen. The stock has further possibilities as a speculation on the success of these efforts, which might in time bring profits of $4.00 or more a share. We are inclined to "play along with" the issue as a possible winner.

Indiana

Profit of Standard Oil (Indiana) in 1960 was $4.05 a share or less than 4% above 1959's $3.90, but the year-to-year gain in the second half was nearer 30% and exceeded that of most other companies. Given a fairly good "break" on gasoline usage and prices in the months ahead, profit could gain strongly this year to the vicinity of $4.60 a share, best in some years. Big factors that appear sure are increased deliveries of natural gas, of which owned reserves are huge, and increased crude oil output in Argentina and Canada. Dividends will continue at $1.40, plus stock distributions from Indiana's holdings of Standard Oil (New Jersey) sufficient in value to represent a payout around 50% of earnings. The stock is performing well at 49, up 14 points from 1960 low of 35, but remains about 16 points under 1956 high of 65. As things look now, it appears to have a basis for working higher.

Uptrend Dividends

Special interest attaches to uptrend-dividend stocks. Taking the 11 years 1950-1960, payments rose each year on these: American Electric Power, Eastman Kodak, General Public Utilities, and Manufacturers Trust. They were raised in ten of the 11 years on the following: Central & South West, Florida Power Corp., General Finance, General Foods, Oklahoma Gas & Electric, Tennessee Corp. and Texas Utilities. We have omitted a few for which further 1961 boosts seem most unlikely or which are too extremely priced for recommendation.

END

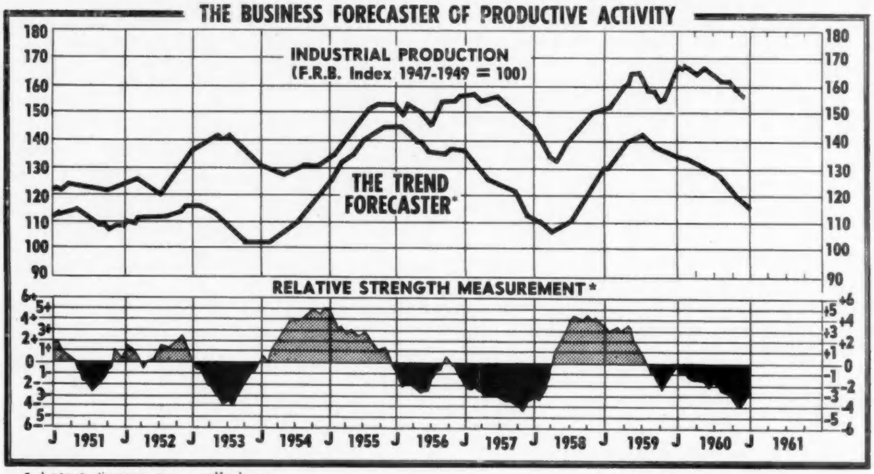
DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1960	1959
Automatic Canteen of Amer.	Year Oct. 1	$ .73	$ .93
Cooper-Bessemer	Quar. Dec. 31	.53	1.00
Daystrom, Inc.	Quar. Dec. 31	.19	.48
Mueller Brass Co.	Year Nov. 30	.51	3.42
United Board & Carton	24 weeks Nov. 13	.36	.78
Aeroquip Corp.	Quar. Dec. 31	.12	.54
Pittsburgh Metallurgical Co.	Quar. Dec. 31	.25	.73
Mc Cord Corp.	Quar. Nov. 30	.80	.98
Reeves Bros.	Quar. Dec. 31	.18	.66
Continental Motors	Year Oct. 31	.43	.80

the Business

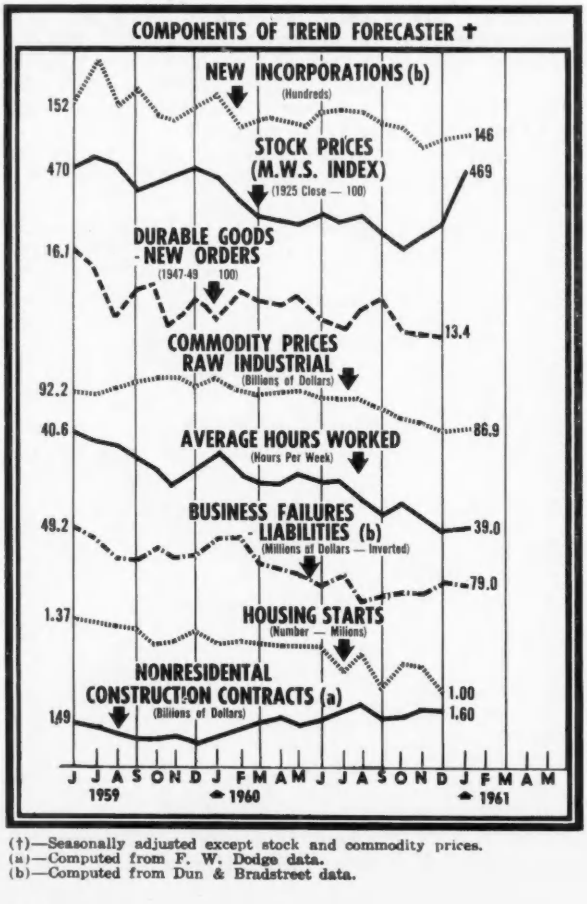
Business Trend Forecaster

INTERESTING TO NOTE — Sharp divergence between industrial output and underlying business trends in early 1960, denoting heavy accumulation of inventories.



* Latest figures are preliminary.

With the many revolutionary changes in our economy, it was evident that various indicators previously used should be dropped and new ones substituted, in order to more accurately forecast developing business trends.



(†)—Seasonally adjusted except stock and commodity prices.
(a)—Computed from F. W. Dodge data.
(b)—Computed from Dun & Bradstreet data.

This we have done in our *Trend Forecaster* (developed over a period of several years), which employs those indicators (see Components of Trend Forecaster) that we have found to most accurately project the business outlook.

As can be seen from the chart, industrial activity in itself is not a true gauge of the business outlook — the right answer can only be found when balanced against the state of our economy. The *Trend Forecaster* line does just that. When it changes directions up or down a corresponding change in our economy may be expected several months later.

The depth or height of the developing trend is clearly presented in our *Relative Strength Measurement* line, which reflects the rate of expansion or contraction in the making. When particularly favorable indications cause a rise that exceeds plus 3 for a period of time, a strong advance in general business is to be expected. On the other hand, penetration of minus 3 on the down side usually precedes an important contraction in our economy.

We believe that subscribers will find our Business Trend Forecaster of increasing usefulness both from the investment and business standpoints.

Current Indications of the Forecaster

Changes in the components of the Trend Forecaster have been small in recent weeks. In the latest period, four of the indicators advanced, three declined and one remained unchanged. Stock prices, hours worked, new incorporations and industrial raw materials all advanced, while liabilities of business failures (inverted), durable goods new orders and housing starts moved lower. Nonresidential constructions contract awards remained unchanged.

Based on recent trends, we estimated that the Relative Strength Measure rose slightly in January, to stand at minus 2.8, versus minus 3.1 in December. The gain was attributable to an upward reversal in the intermediate trend of business failures, despite the December to January decline for this indicator. Although the Relative Strength Measure is still at a relatively low level, the fact that four of the indicators were higher in the latest period gives us some grounds for hoping that the Measure is now in an upward trend that may last for some time.

Analyst

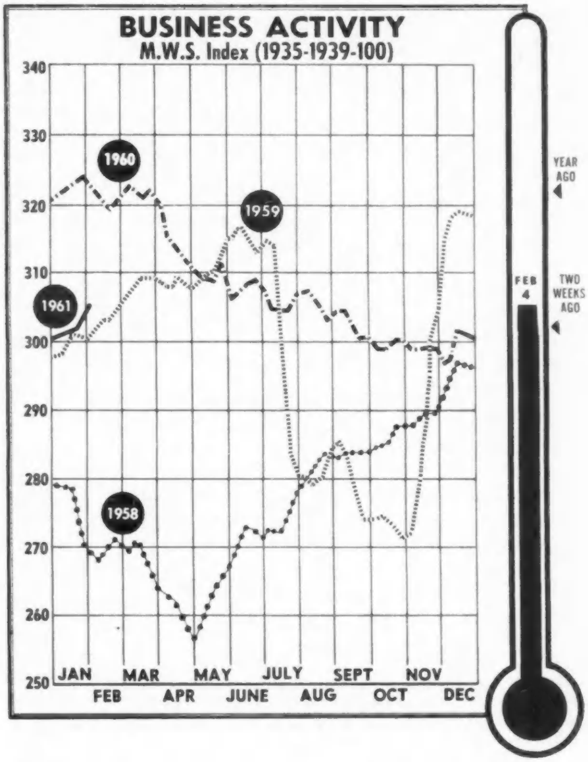
CONCLUSIONS IN BRIEF

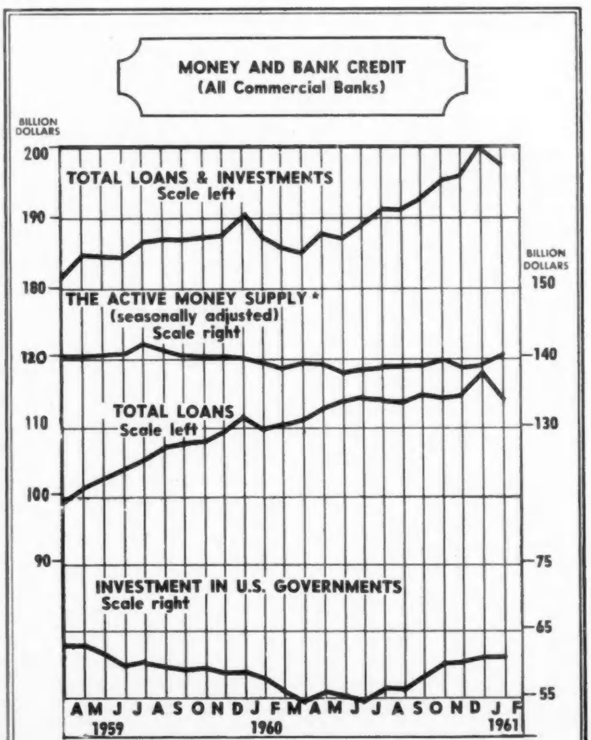
PRODUCTION—Further recession combined with bad weather, has reduced output further in February. The big decline centers in the auto industry, where consequent cut in inventories could make for some pick-up by early Spring. This will also help the steel industry and other auto suppliers.

TRADE—A sizeable part of the recent drop in retail sales (especially autos) is attributable to poor weather. Look for at least a temporary rebound in this area and greater stability in most other lines, in the weeks ahead.

MONEY & CREDIT—Bond prices rising again as a hiatus of new issues continues to restrict supply. This factor plus recent increases in available savings should make for further near-term price improvement in high grade fixed income securities.

COMMODITIES—Prices are firming up, with industrial raw materials in the lead. Output cuts have reduced supplies of some raw materials and enabled dealers to start cuttting excessive stocks of finished goods, thus setting the stage for further price advances.





*Demand deposits of all banks plus currency outside the banks.

THE slackening in business in recent weeks has not been due entirely to the continuing recession. The economy has had an additional burden in January and February as bad weather in many areas temporarily disrupted transportation, kept shoppers close to home and gave retailers some anxious moments. This has had a lot to do with distorting the picture, a factor that must be taken into consideration when appraising the recessionary erosion.

It is this situation that has been obscuring efforts for a more thorough-going appraisal regarding the maturity of the recession. Yet examination of the trends in the major sectors of the economy does give us a basis for gauging the outlook.

Consumer Spending, which accounts for the largest slice (two-thirds) of the national product, has not come up to expectations in recent months. These outlays had held at high levels through November of last year, arousing hopes that they would be a bulwark against recession. Since then, however, consumer demand has ebbed, with a greater than seasonal decline, which has accelerated in recent weeks. The severe winter has been partly to blame, of course, but reports from sections of the country where normal weather conditions prevail have also shown a moderate slackening of demand. Auto sales have been hardest hit, and this weakness has come at a time when passenger car inventories are at record levels. As a result, output has been cut sharply, reducing employment and payrolls in the industry, and adversely affecting numerous related

(*Please turn to the following page*)

Essential Statistics

THE MONTHLY TREND	Unit	Month	Latest Month	Previous Month	Year Ago
INDUSTRIAL PRODUCTION* (FRB)	1947-'9-100	Jan.	155	157	168
Durable Goods Mfr.	1947-'9-100	Jan.	154	156	180
Nondurable Goods Mfr.	1947-'9-100	Jan.	155	157	159
Mining	1947-'9-100	Jan.	128	128	128
RETAIL SALES*	$ Billions	Jan.	17.7	18.0	18.1
Durable Goods	$ Billions	Jan.	5.5	5.6	5.9
Nondurable Goods	$ Billions	Jan.	12.2	12.4	12.2
Dep't Store Sales	1947-'9-100	Jan.	142	147	146
MANUFACTURERS'					
New Orders—Total*	$ Billions	Dec.	28.8	29.0	30.7
Durable Goods	$ Billions	Dec.	13.4	13.6	14.8
Nondurable Goods	$ Billions	Dec.	15.4	15.4	16.0
Shipments*	$ Billions	Dec.	28.9	29.3	30.8
Durable Goods	$ Billions	Dec.	13.6	13.8	15.0
Nondurable Goods	$ Billions	Dec.	15.4	15.4	15.8
BUSINESS INVENTORIES, END. MO.*	$ Billions	Dec.	92.2	92.7	89.4
Manufacturers'	$ Billions	Dec.	53.7	54.0	52.4
Wholesalers'	$ Billions	Dec.	13.2	13.3	12.6
Retailers'	$ Billions	Dec.	25.4	25.4	24.3
Dept. Store Stocks	1947-'9-100	Dec.	167	169	161
CONSTRUCTION TOTAL—t	$ Billions	Jan.	55.3	56.4	54.7
Private	$ Billions	Jan.	38.2	38.6	39.9
Residential	$ Billions	Jan.	20.7	21.5	23.7
All Other	$ Billions	Jan.	17.5	17.1	16.7
Housing Starts*—a	Thousands	Dec.	990	1212	1451
Contract Awards, Residential—b	$ Millions	Dec.	879	1253	993
All Other—b	$ Millions	Dec.	1840	1633	1231
EMPLOYMENT					
Total Civilian	Millions	Jan.	64.5	66.0	64.0
Non-farm*	Millions	Jan.	52.6	52.4	42.9
Government*	Millions	Jan.	8.6	8.6	8.3
Trade*	Millions	Jan.	11.7	11.5	11.6
Factory*	Millions	Jan.	11.6	11.7	12.5
Hours Worked	Hours	Jan.	38.6	38.6	40.3
Hourly Earnings	Dollars	Jan.	2.32	2.32	2.29
Weekly Earnings	Dollars	Dec.	89.55	89.55	92.29
PERSONAL INCOME*	$ Billions	Dec.	407	409	394
Wages & Salaries	$ Billions	Dec.	271	274	265
Proprietors' Incomes	$ Billions	Dec.	61	61	60
Interest & Dividends	$ Billions	Dec.	42	42	38
Transfer Payments	$ Billions	Dec.	31	30	28
Farm Income	$ Billions	Dec.	17	17	17
CONSUMER PRICES	1947-'9-100	Dec.	127.5	127.4	125.5
Food	1947-'9-100	Dec.	121.4	121.1	117.8
Clothing	1947-'9-100	Dec.	110.6	110.7	107.9
Housing	1947-'9-100	Dec.	132.3	132.1	130.7
MONEY & CREDIT					
All Demand Deposits*	$ Billions	Jan.	112.2	110.8	111.7
Bank Debits*—g	$ Billions	Jan.	97.4	94.7	94.4
Business Loans Outstanding—c	$ Billions	Jan.	32.2	33.0	30.8
Instalment Credit Extended*	$ Billions	Dec.	4.0	4.1	4.1
Instalment Credit Repaid*	$ Billions	Dec.	3.9	3.9	3.8
FEDERAL GOVERNMENT					
Budget Receipts	$ Billions	Dec.	7.6	6.3	7.3
Budget Expenditures	$ Billions	Dec.	6.8	6.8	6.6
Defense Expenditures	$ Billions	Dec.	4.2	3.9	4.2
Surplus (Def) cum from 7/1	$ Billions	Dec.	(4.9)	(5.7)	(5.6)

PRESENT POSITION AND OUTLOOK

activities. These developments would tend to influence consumers to reduce outlays further and could theoretically generate a cycle of further contraction. However, the high level of liquid assets in the hands of the public at this time, and the fact that demand will undoubtedly pick up to some extent as the weather improves, should prevent the current dip from accelerating sharply.

Domestic Private Investment, the most volatile sector of the economy, is continuing to decline in the early months of 1961. This slowdown, which had been mostly confined to investment in inventories during late 1960, has now spread to both nonresidential construction and producers' durable equipment, and no bottoming-out process is developing as yet. Nonresidential construction does look promising, however, with a high level of orders hinting at increased activity to come. The housing industry, on the other hand, remains in the doldrums, and experts in this field are afraid that the post-war housing boom has run its course and cannot be resurrected. With vacancies rising and building costs exceedingly high, it is doubtful that even a sharp cut in mortgage rates could spark much of an increase in home buying. Nor is the near-term outlook for durable equipment or inventories much brighter. Businessmen late last year were planning to cut their capital outlays by almost $1 billion in the first quarter of 1961, but the recent reduction in output of machinery and other business equipment indicates that the decline may be even sharper than this. Inventories, too, appear to be in for further cutting, despite the $450 million reduction achieved in December. The fact is that business sales have been dropping faster than stockpiles and as a result the ratio of inventories to sales is still climbing. Moreover, stockpiles of finished goods in December were still close to their all-time peak, and few recessions in the past have ended until both the relationship of inventories to sales and holdings of finished goods have been in a declining phase of some duration. On these grounds, fur-

and Trends

QUARTERLY STATEMENT FOR THE NATIONAL ECONOMY

In Billions of Dollars—Seasonally Adjusted, at Annual Rates

SERIES	1960 Quartaer IV	1960 Quarter III	1960 Quarter II	1959 Quarter IV
GROSS NATIONAL PRODUCT	503.5	503.0	505.0	486.4
Personal Consumption	332.0	328.7	329.0	319.6
Private Domestic Invest.	65.8	70.8	75.5	70.8
Net Exports	4.0	3.7	2.0	—0.4
Government Purchases	101.7	100.7	98.6	96.4
Federal	53.2	52.7	51.7	52.5
State & Local	48.5	48.0	46.9	43.9
PERSONAL INCOME	408.5	408.0	404.2	389.0
Tax & Nontax Payments	50.4	50.5	49.9	46.5
Disponsable Income	358.1	357.5	354.3	342.4
Consumption Expenditures	332.0	328.3	329.0	319.6
Personal Saving—d	26.1	29.2	25.2	22.8
CORPORATE PRE-TAX PROFITS		41.5	45.7	44.8
Corporate Taxes		20.3	22.3	22.1
Corporate Net Profit		21.3	23.4	22.7
Dividend Payments		14.0	13.9	13.8
Retained Earnings		7.3	9.5	8.9
PLANT & EQUIPMENT OUTLAYS	35.6	35.9	36.3	33.6

THE WEEKLY TREND

		Week Ending	Latest Week	Previous Week	Year Ago
MWS Business Activity Index*	1935-'9-100	Feb. 4	306.3	305.2	322.6
MWS Index—Per capita*	1935-'9-100	Feb. 4	219.8	219.1	234.8
Steel Production Index*	1957-'9-100	Feb. 4	80.1	78.7	144.0
Auto and Truck Production	Thousands	Feb. 11	121	132	191
Paperboard Production	Thousand Tons	Feb. 4	313	314	321
Paperboard New Orders	Thousand Tons	Feb. 4	334	302	332
Electric Power Output*	1947-'49-100	Feb. 4	281	281	267
Freight Carloadings	Thousand Cars	Feb. 4	498	476	588
Engineerings Constr. Awards	$ Millions	Feb. 9	287	346	375
Department Store Sales	1947-'9-100	Feb. 4	106	103	111
Demand Deposits—c	$ Billions	Feb. 1	60.7	62.0	60.6
Business Failure—s	Number	Feb. 2	368	400	318

PRESENT POSITION AND OUTLOOK

ther inventory reduction appears to be needed.

Export Trade is one field that has remained strong in contrast to the recession in domestic business. In the fourth quarter of last year, our sales overseas exceeded our imports by $4 billion at annual rates and this favorable balance is being maintained in early 1961. Some foreign economies appear to be losing their upward momentum, however, and this may prevent any appreciable gain in exports over their current high level.

Government Spending—Hopes in various quarters of a business upturn in the near future are based on expectations of a sharp expansion in Government spending. Federal expenditures will probably rise appreciably by 1962, but immediate increases may not reach anticipated proportions. The President has estimated that the total cost of measures he has recommended to stimulate business and expand social welfare programs would amount to somewhat less than $3 billion. But many of his recommendations are controversial, and even if passed by Congress, would not

(Please turn to page 628)

*Seasonally adjusted. (a)—Private starts, at annual rates. (b)—F. W. Dodge unadjusted data. (c)—Weekly reporting member banks. (d)—Excess of disposable income over personal consumption expenditures. (e)—Estimated. (f)—Estimated by Council of Economic Advisors. (g)—337 non-financial centers. (na)—Not available. (r)—Revised. (s)—Data from Dun Bradstreet. (t)—Seasonally adjusted, annual rate. Other Sources: Federal Reserve Bd., Commerce Dept., Securities & Exch. Comm., Budget Bureau.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

No. of Issues (1925 Cl.—100)	1961 High	1961 Low	1961 Feb. 3	1961 Feb. 10
Composite Average	483.5	419.4	483.5	482.3
4 Agricultural Implements	443.2	346.4	439.4	443.2H
3 Air Cond. ('53 Cl.—100)	141.0	105.8	138.5	141.0H
9 Aircraft ('27 Cl.—100)	1179.1	861.9	1179.1	1146.9
7 Airlines ('27 Cl.—100)	1044.6	736.7	968.3	1025.3
4 Aluminum ('53 Cl.—100)	521.3	354.5	433.5	409.4
5 Amusements	346.5	209.3	337.2	346.5H
5 Automobile Accessories	531.1	401.0	434.8	434.8
5 Automobiles	157.0	90.8	94.4	94.4
3 Baking ('26 Cl.—100)	40.2	34.9	40.2	40.2
4 Business Machines	1512.6	1159.1	1512.6	1512.6
6 Chemicals	809.6	657.3	782.8	782.8
4 Coal Mining	36.0	27.2	32.9	33.2
4 Communications	234.4	199.9	229.2	227.0
9 Construction	192.9	143.3	191.2	192.9H
5 Container	1064.7	824.6	918.4	935.7
5 Copper Mining	347.6	275.6	316.7	314.0
2 Dairy Products	217.8	146.8	203.9	201.9
5 Department Stores	156.7	135.2	154.0	155.5
5 Drugs-Eth. ('53 Cl.—100)	474.7	360.4	402.0	402.9
5 Elect. Eqp. ('53 Cl.—100)	384.7	310.7	340.6	326.8
3 Finance Companies	874.9	648.8	866.9	866.9
5 Food Brands	624.5	419.3	613.4	607.8
3 Food Stores	270.8	232.1	265.3	267.9

(Nov. 14, 1936 Cl.—100)	High	Low	Feb. 3	Feb. 10
High Priced Stocks	303.8	262.7	299.0	303.8H
Low Priced Stocks	653.8	527.6	611.0	614.6
5 Gold Mining	1226.0	810.8	1050.8	1028.9
4 Investment Trusts	170.6	136.5	151.1	151.1
3 Liquor ('27 Cl.—100)	1534.5	1098.2	1255.5	1314.2
7 Machinery	545.1	402.9	545.1	525.6
3 Mail Order	446.1	364.2	425.4	429.4
4 Meat Packing	293.1	223.9	285.3	293.1
4 Mtl. Fabr. ('53 Cl.—100)	208.6	132.4	160.1	158.7
9 Metals, Miscellaneous	399.1	313.3	376.0	376.0
4 Paper	1237.1	867.3	1080.3	1060.7
16 Petroleum	785.7	609.0	785.7	778.6
16 Public Utilities	432.3	341.6	428.3	432.3H
6 Railroad Equipment	99.8	75.8	91.8	93.4
17 Railroads	70.1	49.9	57.6	56.1
3 Soft Drinks	1002.9	690.3	993.5	1002.9H
11 Steel & Iron	464.9	325.4	373.3	369.9
4 Sugar	100.9	63.0	87.0	74.0
2 Sulphur	783.0	563.1	783.0	783.0
11 TV & Electron. ('27—100)	119.4	86.8	102.4	105.3
5 Textiles	233.0	183.3	223.4	223.4
3 Tires & Rubber	255.9	170.6	195.5	184.6
5 Tobacco	252.5	182.5	250.2	252.5H
3 Variety Stores	382.1	349.3	367.1	363.6
16 Unclassifd (49 Ct. — 100)	295.1	224.0	258.0	262.6

H—New High for 1960-1961. L—New Low for 1960-1961.

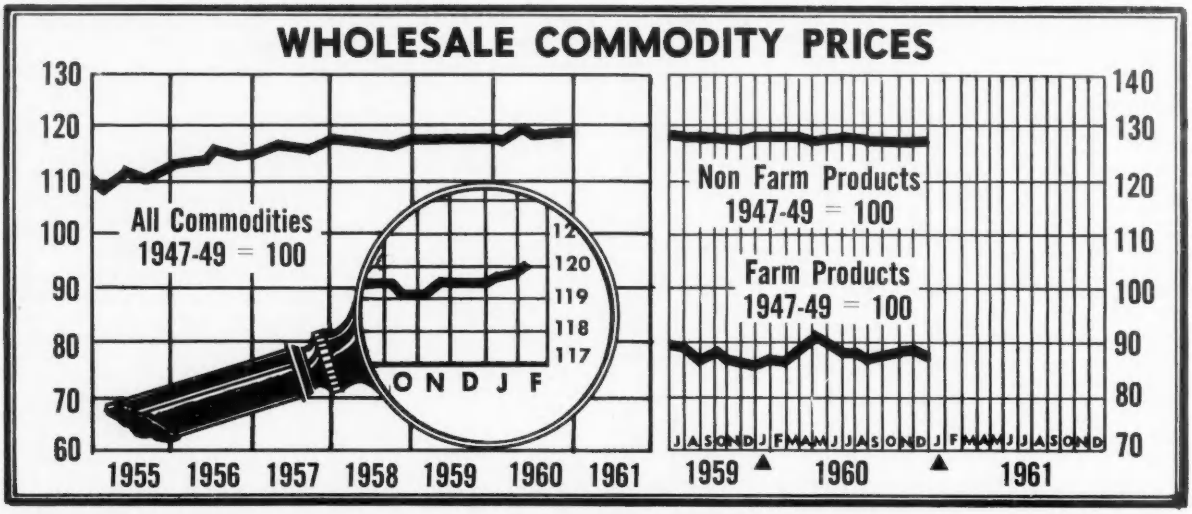
Trend of Commodities

SPOT MARKETS—Leading raw materials have been more lively in recent weeks, with purchasing agents stepping up their buying of industrial raw materials, while food prices have been helped by the bad weather. The BLS daily index of 22 leading commodities rose 0.7% in the two weeks ending February 10 and the industrial raw materials component was 0.9% higher. In the latter category, burlap, cotton, wool tops, copper scrap, hides, rubber and tallow all were higher while only print cloth declined. Most of the gains were small however, accounting for the moderate nature of the gain in the index.

With raw material inventories at low levels and supplies of finished goods in better balance with demand, further price improvement can be expected in the weeks ahead.

FUTURES MARKETS — Most futures prices continued to move higher in the two weeks ending February 10 as the Administration's drive to bolster farm incomes encouraged buyers. The Government has already acted to increase foreign outlets for food surpluses and is starting a food stamp program for the needy in this country. Plans to raise price supports and reduce acreage devoted to feed grains has also attracted attention.

Wheat was one of the few commodities that declined in price during the period under review and the May option fell 2¼ cents to close at 210¾. With Government loans on the 1960 crop no longer available and prices well above support levels, growers appear to be withdrawing wheat from the loan, adding to free supplies and tending to hold prices down.



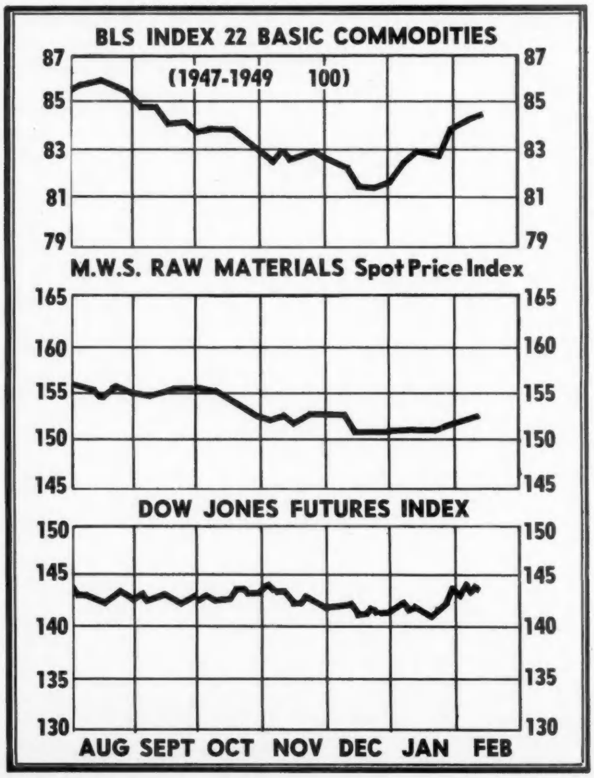
BLS PRICE INDEXES 1947-1949—100	Date	Latest Date	2 Weeks Ago	1 Yr. Ago	Dec. 6 1941
All Commodities	Feb. 7	120.0	119.9	119.5	60.2
Farm Products	Feb. 7	90.7	89.9	88.7	51.0
Non-Farm Products	Feb. 7	128.2	128.1	109.3	67.0
22 Sensitive Commodities	Feb. 10	84.3	83.7	84.6	53.0
9 Foods	Feb. 10	78.9	78.4	72.4	46.5
13 Raw Ind'l. Materials	Feb. 10	88.2	87.4	94.0	58.3
5 Metals	Feb. 10	85.6	85.2	100.3	54.6
4 Textiles	Feb. 10	84.1	83.6	79.7	56.3

MWS SPOT PRICE INDEX
14 RAW MATERIALS
1923-1925 AVERAGE—100
AUG. 26, 1939—63.0 Dec. 6, 1941—85.0

	1960	1959	1953	1951	1941
High of Year	160.0	161.4	162.2	215.4	85.7
Low of Year	151.1	152.1	147.9	176.4	74.3
Close of Year		158.3	152.1	180.8	83.5

DOW-JONES FUTURES INDEX
12 COMMODITIES
AVERAGE 1924-1926—100

	1960	1959	1953	1951	1941
High of Year	148.7	152.7	166.8	215.4	84.6
Low of Year	141.2	144.2	153.8	174.8	55.5
Close of Year		147.8	166.5	189.4	84.1



Natural Gas Struggle On The West Coast

(Continued from page 612)

amount of competition is desirable in the natural gas industry, despite its accepted utility character. At the same time, this competition cannot be allowed to become excessive. Consumers must neither be required to pay for duplicating facilities on the one hand nor be threatened by the excessively rapid depletion of limited reserves on the other. Of course, generalities like this are easy to prescribe; their practical application in numerous complex cases is a much more difficult process. It can only be taken for granted that we will see sharper competition between rival natural gas giants, like El Paso and Tennessee, and will probably also witness changing concepts in government regulation.

While government agencies will protect consumer interests carefully, it is clear that natural gas companies must be allowed earnings that will encourage continued expansion thus enabling the industry to remain a profitable one for investors. END

How's Business Today?

(Continued from page 591)

listed as an area of substantial surplus.

► Total retail sales were sustained at a high level at district outlets and topped 1959 volume by about 5%.

► Industrial production has held up fairly well. Output of coal in Southern Illinois and Indiana and Western Kentucky and Missouri rose 5% and lumber production in southern states has been maintained on an even level. Production of steel at St. Louis area mills last year was under the very high level of 1959, but still averaged over 80% of capacity in contrast to the depressed level of steel output nationally.

9. Ninth District — Minneapolis

The Ninth District has a different industrial composition than the nation as a whole, but output of district industrial firms declined in the latter half of 1960 as it did in the nation. The seasonally adjusted index of industrial use of electrical power in all district manufacturing, in terms of the 1957 base period, rose from 108 percent in January to a peak of 121 per cent in June and declined in the following months to 114 percent in October. The industrial use of electrical power in the manufacture of durable products declined by 12 percentage points from March to October. The energy used in the manufacture of nondurables also declined in the latter half of the year, but at a much smaller rate.

► Among the durable product industries the manufacture of lumber and some lumber products was especially hard hit last year. The demand for lumber was weak due to the relatively low volume of home building. In several months during 1960, retail lumber sales were down as much as one-fifth and one-fourth from the previous year.

► The manufacture of nondurable products comprises a number of relatively stable industries. In this district, meat packing, poultry dressing, vegetable canning, dairy processing and flour and other grain processing constitute a large share of nondurable manufacturing. Consumer expenditures for food have held up well during past recessionary periods. These processors provide a steady market for a large volume of regional farm products.

► Iron ore shipments from U. S. mines in the Lake Superior region aggregated 66 million gross tons during the 1960 Great Lakes navigation season. Although this was nearly twice the 1959 tonnage, when shipments were interrupted by the steel strike, it fell short of the tonnage shipped in former prosperous years.

► With respect to net cash farm income, higher cash receipts and government payments coupled with a halt in the upward trend in production expenses resulted in a 10% increase in district net cash farm income this year compared with 1959. At $1,378 million, district net cash income is 2% above the average of the last 5 years, but 13% below the record of the 1958 level. All district states except Montana experienced a rise in net cash farm income in 1960. Minnesota's net cash income was up 12% from 1959, while North and South Dakota experienced increases of 16% and 15%, respectively. Montana recorded a drop in net cash farm income during the period.

10. Tenth District — Kansas City

This district includes only a thin slice of western Missouri, but embraces all of Kansas, Nebraska, Wyoming and Colorado plus large parts of New Mexico and Oklahoma. Food processing, aircraft production, and the mining of natural resources are the principal non-agricultural activities in this district. Wheat and cattle raising predominate in Kansas and Nebraska. Predominance of non-durables production in the area manifests itself in a better sustained level of output. On the other hand, during periods of rapidly rising output due to cyclical recovery, this district is not likely to experience gains of the same relative magnitude as those noted in areas where durables make up a large share of total manufacturing activity.

► The Tenth District's level of prosperity continues to hold up above the national average as reflected in its index of department store sales which was 160 in December compared to a national average of 147 as of the same month.

11. Eleventh District — Dallas

The seasonally adjusted index of Texas industrial production declined to 171 in November, but was 2 points above November 1959. Nonfarm employment in the district states held virtually steady in November and was slightly above a year earlier. Unemployment in Texas during November increased to 5.1% of the nonfarm labor force.

► This district is one of the most dynamic of the reserve districts. ● Its department store sales index (based in 1947-49 = 100) ended last year at 171 versus 147 for the nation. ● Oil production, a major activity, has been suffering from over-supply. However, crude oil production in the district increased moderately in November and early December and the cold winter being experienced by the nation may cut down stocks materially. ● The agricultural outlook for the area is good. Production of Texas citrus fruits this season is expected to be sharply above a year earlier. Pasture and livestock conditions remain favorable, although snow and rain have curtailed grazing, and low temperatures have caused moderate livestock shrinkage.

12. Twelfth District — San Francisco

This large and economically expanding district includes the entire West Coast plus Idaho, Utah, Nevada, part of Arizona and all of the two new states of Alaska and Hawaii. Recent unsatisfactory trends in the aircraft industry, in lumber, steel and copper production in the district line contributed to increased unemployment and to a less than seasonal gain in retail trade. However, the district's cash farm income for 1960 exceeded the record obtained in 1959 and the outlook is for a continued high level of farm income in 1961.

► Steel operating rates in western states have been at or under 50%. ● Declines in the level of activity in aircraft production and in lumber and wood products produced declines in employment of 3.6% and 13% from year ago levels. ● Seasonally adjusted rates of unemployment late in 1960 were 6.6% in California, 7.0% in Oregon and 8.2% in Washington. A large part of California's unemployment has been concentrated in the southern part of the state where the aircraft industry is important. The number of unemployed in California in October was 429,000 on a seasonally adjusted basis, an amount exceeding that for any October since 1949. END

Rebuilding Our Cities

(Continued from page 599)

of extreme importance. Just the same, some changes to simulate peripheral districts can be profitably effected.

Many downtown buildings which have long since served their purpose should be torn down and their sites utilized either for parking or park purposes. This modification would provide that openness which is so appealing to the suburbanite. Some private owners have not waited to be forced to act in this manner, but have voluntarily purchased adjacent buildings and razed them to provide more space for themselves or for tenants. Greater stability in space occupancy or increases in rentals in the remaining buildings have usually followed.

But not all of the businesses established in outlying areas represent removals from downtown nor are all of the patrons of the new shops former shoppers in the downtown districts. An Ohio University sociologist, in an investi-

gation conducted in Columbus, Ohio, Houston, Texas, and Seattle, Washington, has concluded that much of the support for new outlying shopping centers is derived from new urban and suburban accretions within a radius of 25 to 35 miles. Likewise, by no means all of the employees of new outlying industrial plants and offices have been taken on at the expense of similar in-town institutions.

Other Face Lifting Efforts

Among other face lifting efforts in the central business district the simple painting or reconstruction of building fronts should not be overlooked. Better street lighting to make the area safe at night, as well as more cheerful, would contribute materially. The introduction of malls which do not interfere with traffic flow or the distribution along the streets of trees, shrubbery, and other decorative plants would relieve the hardness of the buildings and provide an air of relaxation. One investigator, finding that people are reluctant to walk more than 1200 feet from their automobiles to their business objective, suggests that if the drabness of downtown areas were eliminated the parking problem would be greatly relieved, as people would not mind walking through more attractive surroundings.

Neighborhoods in many cities located between the downtown district and the less densely populated sections no longer enjoy the high esteem of earlier years. But they are not sufficiently depressed to be classified as slums. Inasmuch as they may be retrieved under proper direction they may be classified as "conservation districts." This means that buildings worth rehabilitation will be salvaged, while those that are not will be razed, so that the neighborhoods may be restored to some semblance of its former worth. Such renewal action is quite recent and significant. A few cases will illustrate its potentialities.

A Specific Example in Philadelphia

In Philadelphia, not far from Independence Hall, is Society Hill. In colonial days and for some years thereafter it was the location of many fine houses. But time has taken its toll. Under excellent leadership it was decided to resurrect the charm of the original district and in consequence it is

now undergoing as intensive an economic and cultural revolution as was the military revolution of 1776. The people of the neighborhood have entered into the spirit of the movement, which is evoking not only a physical change but a new moral tone. In fact, all the city is finding here a sense of pride. To be sure there have been some heartaches as old timers have had to leave dingy homes and make new adjustments. But these upsets were temporary, and even many who at first rebelled are now among the enthusiasts.

The expense of rehabilitation was borne jointly by the property owners, the city, and the federal government. The latter advanced funds to cover two thirds of the cost of buying the land and putting it in condition for subsequent sale to private capital desirous of developing the area in accordance with plans set forth by the city. **Such a subsidy is available to any city which can meet certain conditions, among them a bona fide master plan into which the proposed project fits. The government's investment is recouped through the ultimate sale of the property; the remainder of the funds advanced by the city should be retrieved through the tax returns resulting from the improvement. The most essential role is still left to private business.**

New Activity and Jobs

The Philadelphia program has produced jobs for many persons. Wreckers, road builders, architects, planners, carpenters, bricklayers, manufacturers of building materials and equipment, and many others, have enjoyed employment. Tourists have been attracted and thousands more will be, after the work is completed. The monetary chain reaction reaches every segment of the population. Out of this activity

another reward is forthcoming, in some respects no less vital, a civic pride in achievement and a lift in the level of the standards of living, particularly among those to whom high standards have never been especially meaningful.

And in Columbus . . .

In Columbus, Ohio, a city of intermediate size, a slum of about

Population Changes, 1950 to 1960, In Selected Standard Metropolitan Areas

	Central City Change in %	Outside Central City Change in %
Atlanta	46.5	33.7
Boston	—15.4	17.1
Chicago	— 3.5	70.7
Columbus, Ohio	23.7	65.9
Denver	17.7	121.0
Houston	56.4	43.5
Philadelphia	— 5.4	45.6
Seattle	17.7	44.9
St. Louis	—13.6	50.7
Washington, D.C.	— 6.9	84.6

Although some of the increase in population outside the Central City was not at the expense of the latter, the fact remains we have here the greatest population migration of all time. We can not afford to be indifferent to it.

114 acres has been razed and bids received from developers who are prepared to rebuild 45 acres, the net area left after providing for streets, schools and parks. About $750,000 will pay for this land, an amount insufficient to cover the city's outlay. But within ten to fifteen years after the new construction is completed, the tax returns should repay the city's investment. Thereafter taxes will continue to pay for maintenance, in contrast with the recent drain which the neighborhood has represented on the taxpayers of the remainder of the city. An immediate gain, of course, will be employment of labor to build the residences, high-rise apartments, shopping centers, and light industrial plants which are planned. A further benefit will accrue to those involved in the supplying of materials.

An interesting by-product of this project will be aid to a nearby conservation district. It is hoped funds yielded by this slum clearance activity can be employed for this purpose. Rehabilitation of this neighborhood will, in turn, stimulate property values both within it and within the adjacent parts of the city. Not to be overlooked is the salutary effect which all of these improvements will have upon the lives of both youths and adults. The rehabilitation of older parts of our cities has great potentialities in terms of the restoration of property values and the return of readily accessible areas to desirable liveability.

Flexibility Must Be Preserved

Admittedly, the solutions to all the problems arising from urban decentralization, history's greatest migration of peoples, have not yet been found. Cities are so dynamic, inventive genius so persistent and the competitive spirit so challenging that it is difficult for the public to keep up with the pace. The behavior of people is unpredictable, so that sometimes it becomes necessary to pursue a trial and error method, however costly, indecisive, and confusing that may be. Before the results of one experiment can be finalized conditions often change and new concepts demand still newer ways. Thus, it is essential that any program must be flexible and subject to adjustment at any time.

Of some things we may be reasonably certain. *Our vast investment in urban cores can be saved* because the latter's momentum is essentially impossible to overcome even though it may on occasion be checked slightly. The advantages of central business districts already noted, such as centrality, accessibility and concentrated service organizations, can be further capitalized under intelligent leadership. Downtown businessmen, including the property owners, must be fully aware of the very real competition arising from decentralization and prepared to take bold action. Hesitation or timid little plans will not do.

Projects Particularly Timely Now

Most business forecasts indicate the continuance of the current recession. They differ only in their estimate of its severity and duration. Civic improvements of the character pointed out offer an extremely valuable weapon against unemployment. To be sure, caution is essential; ill-advised haste can be wasteful. Ample study and consideration should be given all proposed actions. Still, some programs could offer immediate relief. Among these are the installation of sidewalks, currently all too rare in residential areas, and more landscaping by city governments as well as by private residents. Night street illumination is woefully inadequate in nearly all of our cities. In a number of cities beautification of properties has been achieved by banks, department stores, and others only on an uncoordinated basis; architects could be employed by businesses, on a cooperative basis, to work out harmonious schemes for entire city blocks. All of these proposals and still others would call for the employment of considerable numbers of persons skilled in different fields and could start a chain reaction of considerable economic magnitude.

Recognizing the Individuality of Cities

Every city has situations peculiar to itself. Here and there are old inns or other structures of historic significance awaiting restoration. Many neighborhoods have homes or other buildings whose architecture is unusual and worthy of restoration to its original beauty. The preservation of the Latin Quarter of New Orleans, the 18th century homes of Charleston, S. C., La Villita in San Antonio, and the Mexican Quarter of Los Angeles, have all paid off monetarily as well as culturally. The entire aesthetic face of nearly every city could profitably be made more attractive. As already stated these communities would then become not merely more appealing to their own residents but very often would be transformed into tourist meccas. The huge sum of $1.6 billion spent by Americans traveling for sightseeing abroad in 1959 (not including the cost of transportation to and from foreign countries) provides strong evidence that many of us are responsive to cultural elements. Although substantial amounts are spent for touring in our own land, much larger sums still would undoubtedly be spent here if only our cities were more attractive. Contrary to some persons who decry aesthetic improvements as academic and wasteful, such improvement is usually a practical business application.

Historical Attractions

To be sure, the speedy restoration of an entire community like Colonial Williamsburg will usually exceed the means both of businessmen and municipalities, and will require some philanthropic backing. But even at Williamsburg, now one of the country's prime tourist attractions, good business has certainly joined philanthropy as a powerful ally. And elsewhere expenses of *preservation* should be considerably more modest. **Lower Manhattan still possesses, for example, many blocks of early, post-colonial brick buildings — neglected and ill-kempt to be sure, but fundamentally strong. Naturally, not all of these can be preserved from the encroachment of newer, taller buildings, but how attractive it would be if a few blocks of the best specimens of them were preserved as a living museum of early Nineteenth Century New York. It can almost be taken for granted that space in these buildings would be highly coveted by tradition-minded organizations, so that the scheme would become a contributor to, rather than a drain upon municipal funds.**

Importance of Zoning

The successful businessman and investor must always look ahead. Some projects he undertakes immediately; others require careful planning. So it is with the biggest of all businesses, our cities. Long-range, sound, scientific planning is essential, as well as more quickly accomplished operations. The procedure of letting each person utilize his land in any way he pleases without regard to its possible deleterious effect upon his fellow citizens is unintelligent. This statement does not imply dictatorship but is merely a plea for such planning by every city as will protect its citizens against unfair encroachments by his fellows. Planning involves zoning, an important protective device against the misguided selfish individual who ignores the possible consequences of his acts. The principle of zoning implicit in the nation's first comprehensive zoning law passed in New York City in 1916 has been upheld consistently by the courts throughout the land. While zoning is sometimes an obstacle to corporations seeking new plant sites, other companies show no interest in locating in communities lacking a planning and zoning program.

Atomic power for peaceful purposes is just around the corner. Are we to sit by and ignore its imminence or shall we be alert to its potentialities and possible effects upon our cities? If atomic energy means that heat will be piped into our homes, office buildings, factories and stores from a central plant, shapes and layouts of these structures will be modified. In regions where coal is now a primary fuel, storage depots will go, trap doors in sidewalks will disappear and chimneys may become museum pieces. When atomic energy runs motor vehicles, filling stations will also become relics of the past and the land they now occupy usable for other purposes. The last of overhead wires for trolley busses will come down and with them the poles that have supported them. Mass transportation may become practical and private automobiles fewer. Parking space will become less at a premium and some of the areas converted to small parks. What a change in the physiognomy of our cities is in store for us in the not too distant future! We should be prepared.

As the City Goes So Goes the Nation

Long range planning is a continuous process, undertaken by men thoroughly schooled in the field. Their conclusions could be advantageously reviewed by a kind of Citizens Development Committee consisting of the local outstanding businessmen who would assist in educating the whole citizenry in the advisability of putting into work the plans under consideration. These plans may call for the rehabilitation of various parts of the city, improved trading facilities, parks, playgrounds, properly designed residential areas, efficient transportation ways, new construction and all of those aspects of a city involving its functional and physical being. Such action should stimulate both the economic and cultural growth of the city as well as the development of that civic pride which carries a city forward to ever better living. Crime, delinquency and poverty, all terrifically costly, would decline notably. Prosperity as the normal status of the community would be better assured and would be reflected in the absence of peaks and valleys from both the local and national economic curves, for as the city goes so goes the nation.

END

Political Pressures That Can Destroy Our Economic System

(Continued from page 595)

Interestingly, the only groups that have managed to improve their margins with any degree of consistency have been those specializing in every day consumer goods, such as food processors. Thus, **General Foods'** star performance in the stock market is fairly easy to understand. Not only have sales increased persistently since 1955 (as would be expected) but profit margins have also improved each year, rising in steady steps from 3.8% in 1955 to 5.6% in 1960.

Such progress in both sales and profit margins induces capital spending and acts as an incentive toward the development and acquisition of new products. Moreover, under these circumstances, the contented shareholders of a fast-growing equity are always ready to provide the enterprise with new investment funds.

Contrast General Foods with the aluminum industry, and most specifically with **Alcoa.** Profit margins of the latter began skidding in 1956, and lately have plummeted sharply. Is it merely coincidence that "insider selling" has persisted in Alcoa for several years now? Huge secondary offerings have come out several times, possibly for various reasons. But the timing, coinciding as it does with the slippage of margins and the lower return on invested capital, explains why investors generally have avoided the group.

It is doubtful whether faster depreciation write-offs would induce Alcoa, or the rest of the industry, to invest at the moment new plant and equipment for future use. Capacity is far in excess of demand, and the return on net worth has fallen so low that management is probably reluctant to invest the stockholders' money at rates far below those prevailing for conservative investments.

The drug industry has been a prime target for the Kefauver

Committee, and yet the record of diminishing profit margins has been documented again and again in the **Magazine of Wall Street**. **Parke Davis** and **Pfizer,** both typical of the industry, each show margins that have been slipping since 1957, with signs that soon the slide may even accelerate. True, their margins still look good when compared with 1955, but the industry reached its dynamic peak later than most other groups.

The reasons for the declining profit margins stem from the rapid pace of obsolescence in the industry and the tremendous competition that develops with amazing rapidity once new drugs are brought out. Hence, the companies are forced to invest more and more for constantly smaller return. Raise their taxes, or otherwise interfere with their diminishing profitability, and the entire nation is likely to pay the price in much lower expenditures for new product development. This would be particularly unfortunate today when the industry is on the threshold of important discoveries in the cancer and geriatric fields.

Earnings Growth and Lower Margins

Of course, the fact that profit margins are sliding does not invariably prevent earnings growth. It merely makes it more difficult and expensive to attain. **U.S. Gypsum,** for example, has managed to raise its earnings in each of the last few years while profit margins have stood still. Higher sales and constant margins explain the performance. The same is true of **Scott Paper,** which has always been the best money-maker among the paper companies.

Examples of persistent earnings growth in the face of declining profit margins, however, are almost impossible to find. **Allied Chemical** did score higher earnings in 1960 despite lower margins the year before, but in general Allied's picture is one of declining earnings in a declining profit margin trend, and rising earnings only when the opposite trend prevails.

Steel Industry Particularly Affected

The steel industry has been a pet target of the Kefauver Committee. A glance at the table raises questions about the Committee's motives. **Bethlehem Steel's** margins have already deteriorated seriously since 1955. **U.S. Steel** has fared better, but despite its enormous expansion outlays, it has not been able to prevent some slippage.

Perhaps **Inland Steel** is most revealing, since historically it has been an extremely efficient producer. The record shows that Inland managed to maintain fairly steady margins through 1958, but in 1959 and 1960 the ailment of the rest of the industry struck Inland as well. Margins are now lower than at any time in a decade.

Undoubtedly, the "quality" of earnings has improved for the major steel companies. Cost-saving equipment has lowered break-even points so that the big companies can show profits even at 50% of capacity operations. But if profit margins continue their current declining trend, either break-even points will begin to creep upward again, or the companies will be forced to spend enormous modernization sums all over again. Measures that interfere with their profitability or reduce profits significantly are bound to discourage new outlays. **Retained earnings have been slipping for the steel companies along with the decline in the return on investment. The big companies can perhaps continue to modernize under these circumstances but the smaller ones will soon fall by the wayside. In the process, the government may be fomenting greater and greater concentration of steel capacity in the hands of just a few producers, thereby creating the very monopolistic conditions other federal agencies are trying to prevent.**

Summary

Corporate profits and the dividends that arise from them are the backbone of a free enterprise system. Moreover, they provide the basic motivation for all investment. Actions that would further limit the ability of corporations to earn a reasonable return can have unpleasant and far-reaching effects on all of the American people.

Washington blithely chooses to ignore the fact, however, that it is reinvested profits that create jobs; and that it is the hope of profit that creates new products and often entire new industries in the process. Washington also forgets that more people than just corporate stockholders have a stake in corporate success. Besides the 13 million stockholders in the United States, scores of millions more are indirect investors through their savings accounts, and insurance policies. Political advantage can be gained by playing on the ignorance of the electorate, but in the long run the harm that can be done to our economic well-being is enormous.

No one quarrels with government's legitimate duty to seek out abuses and to punish wrong-doers. The free enterprise system must also be protected from its own most ardent advocate when they get out of line. But government should not have license to interfere with legitimate enterprise. If it does so indiscriminately, economic growth will come to a halt.

END

The Business Analyst

(Continued from page 621)

become fully operative for many months. And the measures that can be implemented rapidly, such as stepped-up payments to the unemployed, a speed-up of Federal insurance dividend distributions and faster tax refunds, would have only a limited effect. The impact of Federal spending thus will not be a potent force until after mid-year, when it will begin to be felt, both as a result of measures by the new Administration and increases provided for in President Eisenhower's budget.

However, if widespread predictions of a relatively mild recession are borne out, the increase in Federal spending is apt to take effect after business has already started upward, and much will depend on the inflationary aspect of the steps to be taken. President Kennedy is thus on the horns of a dilemma from which he may find it difficult to escape. Increased spending if badly timed, could have serious repercussions later, on the position of the dollar. A policy of wait and see, on the other hand, could also prove ill-advised if the recession turns out to be more serious than presently expected.

END

ow
er